# LIBERALISM AND INDUSTRY

## TOWARDS A BETTER SOCIAL ORDER

### By RAMSAY MUIR

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*Towards a Better Social Order*

BY

RAMSAY MUIR

BOSTON AND NEW YORK
HOUGHTON MIFFLIN COMPANY
1921

To

R. H. C., K. L., P. M. O., C. G. R.,

E. D. S., E. T. S., T. S., T. F. T.

*Printed in Great Britain*

# PREFACE

THIS little book is the outcome of discussions carried on by a group of Manchester men, mostly engaged in industry, who were asked by the Manchester Liberal Federation to consider what ought to be the main lines of a Liberal industrial policy.

Feeling real sympathy with many aspects of the protest against the existing economic order, they were convinced that a generous programme of reconstruction, inspired by clearly thought out principles, must be undertaken if the nation is to be saved from ruin. They found no hope of a real solution in a policy of hand-to-mouth makeshifts and "concessions," such as seemed to them likely to be followed by a Coalition of men of widely varying principles. On the other hand, the Labour Party appeared to them to waver between two mutually incompatible doctrines, both abstract, ill-defined and undigested; and the more they studied the problem, the more convinced they became that the best hope of a steady approximation to greater justice and a finer spirit of freedom and comradeship in industry lay in a courageous and clear-thinking redefinition of Liberalism in relation to modern needs and conditions.

They did me the honour of inviting me to share in their deliberations, and the further honour of

asking me to write a little book, which should express the standpoint and outlook at which they had arrived, without attempting to define a detailed cut-and-dried programme. Though I hesitated because I was conscious of the inadequacy of my equipment for such a task, I undertook it in the hope that their knowledge and experience would make good my deficiency. For the book as it stands—for its arrangement and structure, and for many of its ideas—I am responsible. But every section has been fully discussed by the members of the group ; and though there are some pages which one or other of them would not be ready fully to endorse, they accept the book as a statement of their point of view. It owes a great deal to their pointed and searching criticism ; I wish that its pages more adequately reflected the practical knowledge, the firm sanity, and the breadth of sympathy which marked their discussions. It owes much, also, to the encouragement and criticism of Lord Haldane, to whom I desire to express my gratitude ; he was good enough to read the manuscript, and to send me many helpful comments and suggestions.

We do not want to be regarded as defining a rigid programme, still less as offering to our readers a cocksure solution, a panacea guaranteed to cure every social malady. For that reason we have been at pains to avoid the precision of detail appropriate to projects of legislation. For although the aims we have outlined can only be attained by means of a series of legislative measures, our primary purpose has been to define a spirit and a point of view which can inspire generous-minded men, of many different

types, to work together in freedom and comradeship for the making of a better world. We feel the immense complexity and delicacy of the subjects we have tried to discuss, and the folly of treating them with any pretence of infallibility. Knowing ourselves to be honest men who desire to serve the Commonwealth, we credit those who differ from us with the same honesty and the same good intent; and if any note of acrimony has crept into the following pages, it is against our will, and we deplore it. For the deepest of our beliefs is that the spirit of hatred, between one party and another or between one class and another, can never bring anything but evil. We should not be Liberals if we did not believe in the positive value of a great variety of methods and opinions, and in the duty of trying to understand one another and to respect one another's convictions.

The book has been generally approved by the Manchester Liberal Federation in the terms of the resolution appended hereto. But beyond this it has no official character.

R. M.

MANCHESTER,
*September*, 1920.

RESOLUTION OF THE MANCHESTER LIBERAL FEDERATION.

That this General Council of the Manchester Liberal Federation (the Liberal 3,000 of the ten Parliamentary Divisions of Manchester), after a public reading of Mr. Ramsay Muir's book on

"Liberalism and Industry," affirms its complete agreement with his interpretation of the spirit and outlook of modern Liberalism, and warmly commends the suggestions made in the book as a basis for the solution of the many social and industrial problems with which the nation is confronted.

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# LIBERALISM AND INDUSTRY

## I

### INTRODUCTION

THE purpose of this little book is to consider whether the ideas and the point of view to which the name of "Liberalism" is given can provide useful guidance towards the solution of the social problems by which we are surrounded; and whether these ideas are capable now, as they have been in the past, of inspiring a real enthusiasm, and a confidence in the future, such as can supply the motive force of a great work of national reconstruction.

Liberalism is a habit of mind, a point of view, a way of looking at things, rather than a fixed and unchanging body of doctrine. Like all vital creeds, it is a spirit, not a formula. It gets expression, from time to time, in formulæ and programmes of policy; but these are always and necessarily determined by the circumstances of the time in which they are framed. They can therefore have no permanent validity. They need to be continually revised and recast, or they become mere shackles on the spirit which they try to express.

Liberalism does not pretend to have a knowledge

of the ultimate truth about human society. It has no certain vision of the millennium, and knows of no short cut for attaining it, such as some other political creeds profess. Its inspiration is the more modest belief that there are certain broad ideas, and a certain outlook, which will provide, amid all the unpredictable changes in the conditions of human life, safe guidance for honest men in their unending struggle towards justice, freedom, and comradeship.

But the ways in which these ideas and this outlook should be expressed in action have to be redefined, by hard thinking, as new conditions arise. Often enough the Liberal, if he will be honest with himself, has to admit that the formulæ in which his predecessors expressed their beliefs are no longer valid, and perhaps even that they were at no time an adequate expression of the ideals of Liberalism.

For that reason, it is not enough to assert roundly that "Liberal Principles" are a sufficient guide to political action. They are not a sufficient guide until they have been redefined in the light of new needs and new conditions.

There never was a time when redefinition was more necessary, or when the old formulæ seemed to be more barren, than to-day, when the whole world is dissatisfied with its old modes of organisation and is seeking impatiently for the clue to a new order of things. In face of such conditions, vague talk about "Liberal Principles" is felt by many to be little less than an insult. What men demand, and rightly demand, is a clear exposition of the answer which the Liberal spirit will give to certain criticisms

of the existing order, a clear definition of the evils which it recognises, and a clear account of the way in which it will try to remedy these evils.

Five main questions demand treatment in any such redefinition. First of all (because it is the most urgent question of the moment), how would Liberalism approach the reconstruction of our economic system, which is in danger of breaking down because it no longer commands the confidence of those who have to work under it? Secondly, how would Liberalism propose to meet the demand of the mass of men for a wider and fuller life than it is now possible for them to enjoy? Thirdly, what defects does Liberalism perceive in our political system, in our machinery for the co-operative regulation of common concerns, and how would it deal with these defects? Fourthly, what is the attitude of Liberalism on the mutual relations of the various members of the British Commonwealth of Nations, and, in particular, how would it deal with the highly dangerous unrest now existing in Ireland, in Egypt, and in India, and with the needs or claims of the more backward peoples included in the Commonwealth? Fifthly, how would Liberalism approach the vexed problems of international relationship, and what would it do to remedy the conditions which have recently brought upon the world such tragic misery and ruin?

All these vast questions are closely related. No one of them can be thought about intelligently except in connexion with the others. But it is convenient to deal with them separately; and in the present essay we shall confine ourselves in

the main to the first two of our five questions, touching on the others only incidentally.

Before we can profitably attempt to define the attitude of Liberalism on these great issues, it will be well to consider afresh what are the essential ideas of Liberalism which we are to endeavour to apply: what is the attitude of mind which guides the Liberal when he thinks about all these questions.

## II

### WHAT IS LIBERALISM ?

(1) THE essence of Liberalism, as its very name suggests, is a deep concern about the preservation and enlargement of Liberty as an essential condition of the highest human welfare.

This may not seem to tell us very much ; for the great name of Liberty may be used in different senses. As we shall see, Liberalism itself has gradually learnt to give to this great word a deeper and fuller meaning. By Liberty we do not mean the right to make whatever use of our powers we think fit ; that conception, logically developed, would lead us straight back to the brutality of the jungle, which is not real liberty at all—not even for the strongest beasts. We mean the liberty which men can only enjoy in organised societies, wherein each is strengthened and protected by the co-operation of all. Real liberty is not the mere absence of restraints ; it is security in doing, by a man's free choice, all or any of the things that are worth doing, and that are not harmful to his fellows ; and it can only be enjoyed in its fulness in a society where all men are equally free, because equally protected by the common action and opinion of the community.

Every political creed, it may be said, would subscribe to such a view, and would define Liberty as one of its aims. But there are differences of emphasis ; and it is in these differences of emphasis that the real distinctions between political creeds are to be found.

Thus one school of thought, while professing to value liberty, places so high a value upon national strength and prestige that it is willing to make great sacrifices of individual or social liberty in order to attain it. The Liberal values national strength mainly as a safeguard for liberty ; he is anxious lest national strength should be used to impair the liberty of other peoples ; and his instinct is to scrutinise very jealously every sacrifice of liberty that is claimed to be necessary for the sake of national strength.

Another school of thought attaches so much importance to efficiency, and to the maintenance of authority and orderly government, that in practice it tends to subordinate liberty to these ends, by giving great power into the competent hands of expert administrators or bureaucrats. The Liberal recognises that a certain degree of inefficiency may be the price which has to be paid for liberty. He is willing to pay this price, believing that free England, in spite of its many defects, has been a better land to live in, and has produced a finer type of manhood, than efficient Germany.

Yet another school of thought holds that the supreme object of the State ought to be the securing of material comfort for every citizen ; and, as a means to this end, it is willing to endure, and to

impose upon the whole community, a great deal of brigading, regulation, and control. The Liberal also desires the widest possible diffusion of material comfort. He recognises that a reasonable degree of material comfort is a condition of real liberty, and that a considerable amount of regulation and control is necessary to secure this end. But he is not willing to obtain material comfort by the sacrifice of real liberty; he believes that, if the choice has to be made, it is better to be poor and free than to be well-off on the condition of being subjected to endless regulation. If he hesitates about Socialist schemes for the reorganisation of Society, it is not because he has a doctrinaire objection to State action, but mainly because he fears the invasion of every man's liberty which might result from the elaborate organisation of State control exercised, as it only could be exercised, through an army of officials.

First and foremost, then, the Liberal's concern is to preserve and to increase human liberty; and the question with which he tests every project of reform is, Does this project promise to increase the real liberty of all citizens, and, especially, does it give reasonable freedom of thought and action to those exceptional, adventurous, original men who are always the pioneers of human progress?

(2) The main reason why Liberalism lays so much stress upon liberty is that it attaches an infinite value to human personality, both as something sacred in itself, and as the source of energy, and the most potent factor in progress. It is the Liberal's belief that the state of society which gives

the freest play to individuality, and which allows and encourages men to make the most and the best of themselves, is likely to lead to the noblest results. He believes that all individualities are valuable, and have an equal right to self-expression. He distrusts uniformity, and values variety for its own sake—variety of individual character and interest, variety of industrial method and experiment, variety of religious belief, variety of national types. He holds that no more fatal charge can be brought against a state of society than that it starves or stunts individuality. It is mainly because he feels that our existing order is in a large degree open to this criticism that he is discontented with it. For that reason he is highly distrustful of schemes of reform which seem likely to place grave hindrances in the way of the free working of individual energy, or to impose upon all men a uniformity of life and conduct.

The ultimate end of our co-operation in Society is not the production of wealth, but the cultivation of the highest types of manhood. The noblest types of manhood thrive only in an atmosphere of liberty. They require the freest outlets for their energy, they need an infinite variety of training and of opportunity ; they are apt to be stunted by the best devised system of regulation conceived in the interests of the mass of average men ; and so long as it is ensured that the expression of one man's individuality is not permitted to starve the expression of his neighbour's, no one school of thought is justified in endeavouring, by the power of the State, to crush out particular forms of human energy

because it disapproves of them, or to decree that only certain kinds of individuality are deserving of respect or tolerance. That, at any rate, is the Liberal attitude. Just as, in the old days, it condemned religious intolerance, so it condemns what may be called economic intolerance. There is need, in a healthy society, for the lilies of the field as well as for wheat and turnips, and no man has a right to say that either is more valuable than the other—so long as the lilies do not choke the wheat or starve it of its needful nutriment.

When, therefore, the Liberal criticises existing systems, or considers any scheme for their improvement, he is bound to ask himself, How far does this system or this scheme provide opportunities for the free development and expression of various individualities? How far does it release and employ the potent force of individual energy, for its own advantage and that of the community?

(3) Because it values Liberty and Individuality so highly, Liberalism has always been distrustful of any very great enlargement of the functions of the State. It values Law and the power of the State chiefly as safeguards for Liberty—chiefly because they are the best, or the only, means of protecting the liberty of the individual against the misuse of power, by whomsoever exercised and whencesoever derived: the power of monarchs, the power of privileged classes, the power of employers, the power of officials, the power of organisations, the power of money. But the more functions the State assumes, the less likely and the less able it will be to perform its duty of guarding against the misuse

of these powers by the agents to whom it entrusts them. Every function which the State assumes must be performed by individuals on its behalf; these men, like any men into whose hand power falls, are tempted to misuse their power; and the State is less likely to be watchful over its own agents than over others. The more elaborate and the more complex the functions which it assumes, the more difficult it will be for the State to exercise proper control. Hence every increase in the functions directly assumed by the State is apt to involve a decrease in its efficiency as the watchdog on behalf of liberty.

Liberalism has always disliked the use of compulsion beyond what is necessary, because it believes that the best results are attained by the voluntary action and the voluntary co-operation of free men. It recognises that, in a large degree, and for many purposes, compulsion *is* necessary; but it is necessary and justifiable only in so far as it is used for the maintenance or enlargement of real liberty. Even when it is exercised by the majority in the community over the minority, and embodied in the form of law, the Liberal dislikes compulsion for any other purpose than the safeguarding of liberty. But he has always by instinct set his face against the use of compulsion by a single element in the community. Whether it be a despot, or a priesthood, or a landed aristocracy, or the money power, or a military caste, or a group of trade unions, Liberalism has always resented and resisted, and will always resent and resist, any attempt on the part of a single element or interest in the com-

munity which has power in its hands to use this power as a means of imposing its will tyrannically upon the rest of the community. Liberalism is the sworn foe of dictatorship, whoever may claim it—of the Dictatorship of a proletariat and the Dictatorship of a plutocracy alike. It is only by constant and strenuous watchfulness that Liberty can be protected against the danger of dictatorship, and the danger is always appearing in new forms, as the changing conditions of human life place power, of one sort or another, in new hands.

(4) Its belief in liberty and individuality, and its hatred of arbitrary power or dictatorship exercised by any group or element over the rest of the community, have led Liberalism to advocate the widest possible diffusion of a share in the control of common affairs; and the establishment of political democracy in all the most advanced countries during the course of the last century has been almost wholly the work of Liberalism and has constituted its greatest achievement. It was long resisted by the older privileged classes, by the possessors of irresponsible power; it is now impugned and attacked by the more extreme Socialists, who desire to substitute for democracy a new class ascendancy, that of the Proletariat.

The intelligent Liberal does not believe in democracy because he thinks that a majority is always right; on the contrary he recognises that in an ill-educated community the majority is likely to be more often wrong than right when it has to decide upon complex and difficult subjects. He believes in democracy because he holds that to have

a share in the responsibility for determining the destinies of himself and his fellows is a necessary element in the healthy development of a free man's individuality, and because he holds that the process of argument and discussion which must perpetually go on in a democratic society is a better means of settling vexed questions than the high-handed use of power. He believes in persuasion rather than in force ; and holds that any body which uses force against the community in order to get its own way, whether it be a military oligarchy or a trade union, is false to its duty to the community.

Nor does the intelligent Liberal think that a body of average men, such as a democratic electorate is always likely to choose, will be really competent to conduct with wisdom difficult and complicated affairs. The thing it is really competent to do is to reflect the mind and will of the community as a whole, and to ensure that the government of the community is carried on in accord with this mind and will. Long ago a great Liberal, John Stuart Mill, defined certain principles of representative government ; and on one point, at any rate, what he wrote is as true to-day as in 1861, and is even more important to-day. The true function of a representative body, as Mill pointed out, is not to undertake the direct management of complicated affairs, to devise the details of legislation, to work out the precise methods of taxation, or to control and direct in detail the conduct of exacting administrative business. No representative body is really competent for such work. Its true function is to see that the right men are selected to carry out these

important and difficult labours, to criticise, approve, or condemn their action, and to make sure by constant watchfulness that they do not abuse the powers vested in them.

If to-day representative institutions are not working in a wholly satisfactory way, and are losing in some measure the confidence of those for whose interests they are responsible, a large part of the reason is that they are trying to do work for which, by their very nature, they are ill fitted; and in undertaking a multitude of new functions are largely neglecting their primary duty of serving as the watchdogs and defenders of liberty. The more their functions are enlarged, the less efficiently their work will be done.

(5) A Liberalism that is worthy of its name is, then, concerned to secure and protect liberty for all members of the community, to foster the development of all individualities by giving them equality of opportunity, to guard against the misuse of power by any particular class or interest in the community and to ensure that the interest of the community as a whole is always predominant. Liberalism is false to its fundamental ideas if it allows itself to be identified with any class or any special interest. It is, or ought to be, the enemy of all purely class interests, and of all sharply-marked distinctions of class or caste. It desires to destroy, not to foster, class-consciousness; and to substitute for it community consciousness and the community spirit. And here, perhaps, lies the chief need for a strengthening of the Liberal spirit to-day, when on both sides the doctrines of class conflict are being preached.

## III

### THE OLD LIBERALISM AND THE NEW

Inspired by their belief in Liberty, by their desire to release individuality from the restraints and shackles which limited its free development, and by their detestation of the tyranny of class and of the abuse of Power, the Liberals of the nineteenth century achieved great things ; and we, who inherit the results of their labours, ought not to undervalue them. They swept away legally established privileges of class and sect. They organised political democracy. They secured freedom of trade, freedom of speech, freedom of association for all lawful purposes. They endowed the daughter-nations of the British stock with political liberties on the amplest scale hitherto known in the world. They helped to win for trade unions the means of obtaining for their members, by common action, better conditions of life and work. And these were very great achievements.

But there were two things which the older Liberals overlooked. In their zeal for liberty and their belief in the potency of individuality they failed to realise that the mere removal of restrictions was not enough for the establishment of real liberty. The mere removal of restrictions upon the freedom of action of individuals meant that the

weak were left too much at the mercy of the strong. It meant that the liberty of many men became in fact unreal, and that the individuality of thousands was apt to be sacrificed to the dominating individuality of the few. In the economic sphere it meant that the rich were left too free to employ the power that their riches gave them over the unprotected poor. In too great a measure, nineteenth century Liberalism forgot that Liberty itself demands that there shall be checks upon any such misuse of power. And although the freedom which the Liberal system allowed to trade unions and other associations for common action provided some check on the abuse of the power of wealth, it was not a wholly satisfactory check; and it had the unhealthy result that it encouraged the acceptance of conflict instead of co-operation as the natural relationship between the organisers of industry and the workpeople.

The second thing which the older Liberals overlooked was that in their distrust of State interference, of compulsion, and of regulation, they failed to realise that in one aspect the State ought to be regarded as a great partnership for good living. Rightly valuing individuality, they too often forgot the community; not realising that it is only in a healthy community that any high type of individuality can thrive, and that the service of the undying community is the noblest way in which individuality can express itself. Many of them lived lives of the noblest and most self-denying public service. But the forms in which they expressed the fundamental ideas of Liberalism made

these ideas appear to justify a very narrow and selfish view of a man's duty to his fellows; and for a time Liberalism was identified with the barren creed of Individualism: each man for himself, a free field and no favour, and the devil take the hindmost.

This did not mean that the essential ideals of Liberalism, its belief in Liberty and in Individuality, its hatred of irresponsibly used power, and its confidence in democracy, were proved to be fallacious. It meant only that these ideals had been too narrowly conceived. Liberty is not merely a negative thing, a mere absence of restraints; it is a positive thing. No man is really free until he possesses, in a sufficient degree, the material basis of liberty, so that he is free from the chains of constant anxiety about the livelihood of himself and his family. No man can really make the most of his own individuality so long as he is engrossed wholly in the drudgery of livelihood. No man is fully master of himself unless he has been trained to use his own powers of intellect, and unless he has learnt to conquer his lower self by subordinating his own will to the Good Will, which rejoices in the service of the community. To establish in a nation liberty and individuality in this generous sense is no easy matter, but a vast constructive labour. The older Liberalism, while it achieved great things by sweeping away privileges and restraints, took too modest a view of what the service of Liberty demands.

From the first there were protests against this unduly narrow view of the meaning of Liberty;

and in the period of Liberal ascendancy there were Factory Acts and Truck Acts, and Housing Acts and Education Acts, and so forth, the purpose of which was to protect the weak against the strong and to make liberty more real. By the beginning of the twentieth century Liberalism had largely shaken off its identification with mere Individualism ; and in the great Liberal Ministry which was at work during the ten years before the war, very marked advances were made in the adoption of the view that it is the duty of the State to secure for all its citizens such conditions of life as will make real Liberty possible. Old Age Pensions, Trade Boards in sweated industries, insurance against unemployment and sickness, and a multitude of other provisions marked the emergence of a new type of Liberalism and of a more generous conception of what Liberty means, and of what is needed for the due cultivation of Individuality.

Meanwhile, however, the reaction against a barren Individualism had taken another form. The doctrines of Socialism were gradually gaining adherents during the second half of the nineteenth century, and during the early years of the twentieth they were winning the allegiance of many of the most active among the leaders of organised labour in Britain. The strength of the Socialist creed was that it did very definitely assert the claim of the community as a whole to the service of all its members ; and it was this which enabled it to win a strong hold over many generous minds. But it offered a rather crude method of overcoming the evils of the social order. It promised a short cut

to the millennium by the simple device of taking under the control of the State all the machinery of production. It thus exaggerated the functions of the State as seriously as the older Liberalism minimised them.

But then the war came ; and under the pressure of its necessities the State had to assume such immense powers of control over the most important industries of the country that we were given in some degree a practical demonstration of how the Socialist State would work. It was not, perhaps, an altogether fair demonstration, though it had the great advantage that everybody was eager to do his best loyally, and to suppress criticism in a time of national crisis. The result was that almost everybody was impressed by the wastefulness, confusion, and irritating formalism which seemed to follow from State control. Everybody also felt that Liberty was seriously impaired by the often irresponsible conduct of Government departments, which could not be checked or guarded against because these departments wielded the powers of the State. The State had almost abdicated its function of guarding against the misuse of power ; and Parliament found that the functions imposed upon it were too immense to be capable of being adequately performed. Hence Parliament itself fell into disrepute.

This taste of the actual working of State control brought about another reaction. In large sections of the Labour world it led to the growth of a movement towards Syndicalism or towards that modified form of Syndicalism which is called Guild Socialism.

We shall have more to say about this theory, as well as about Socialism, in later pages of this book. In the meanwhile it is perhaps enough to say that these two doctrines are fundamentally inconsistent with one another. The Labour Party has in some degree adopted both, and wavers between them. It has, however, won the allegiance of many thousands of earnest and honest men, just because it is plainly striving after an ideal, even though it cannot very clearly define how the ideal is to be reached.

But a vague ideal, if it does not rest upon clear and sound thinking, may be a very dangerous thing. There are many who believe that the Labour Party, in spite of the loftiness of its aim, is unknowingly worshipping false gods. And under these circumstances, if Liberalism is to be recognised as offering a safer clue in the perplexities of our time, it has become more than ever necessary that there should be a clear redefinition of its principles and aims, and of their bearing upon the problems of to-day.

## IV

### THE PROBLEM OF SOCIAL RECONSTRUCTION

THE most striking feature of our time, and in many ways its most hopeful feature, is the existence of a widespread belief, not by any means limited to one class or to one school of thought, that there is something radically wrong with the social order in which we live, and that it needs to be readjusted. Men of all classes feel that the system is in many ways unjust, that it encourages and rewards the wrong kind of qualities, that it denies to multitudes of men and women the chance of making the best of themselves and of rendering to the community the best service of which they are capable, that it puts men of good will, in all classes, in a false relation to one another.

This feeling, far more than any actual hardship or oppression, is at the bottom of the unrest from which we are suffering; and until some cure has been found for it—until men can feel that we are working towards a better state of things, and can have some confidence and belief in the aims we have set before ourselves—the unrest will continue. Not only that, but it will be played upon by the wild wreckers who rejoice in the prospect of smashing up organised society, having no notion of the

appalling misery and degradation which must result from such action.

What prospect have we in Britain to-day of a satisfactory solution of this immense and inspiring problem? There are three organised groups of public men who are competing for the votes and confidence of the electors. Let us see what hopes they hold forth.

On the one hand there is the party, or the group of parties, now in power—a strange combination of once irreconcilable opponents, who in the nature of things have no clearly defined principles in common, and whose apparent aim is merely to tide over the period of unrest caused by the war, and to let things settle down. They are headed by a man of genius and charm, a brilliant improviser, a man of generous emotions but guided by no clearly thought out principles. He has unrivalled skill in steering through troubled waters; but he has no map of the course, and no knowledge of the currents and shoals ahead; he does not clearly know whither he is steering. His followers include many honest and bewildered men, who are doing their best, often at cross-purposes with one another, to find solutions for this problem or that; but they too have no clear idea of the kind of society they wish to shape, or, if they have, they dare not define it because they know that most of their colleagues would repudiate it. The bulk of the coalition host consists of the representatives of vested interests, of people who would start back in panic from any bold and far-reaching plan of reconstruction, and who want and hope for nothing more than that the

minimum concessions should be made, on this side or that, to keep things going until we can get back to something as like the state of things before the war as may be. That is not the desire of the nation. And from such guidance no acceptable solution is likely to come. What *has* come from it is confusion, immense waste of money, constantly changing and illogical devices, and a steady diminution of the respect felt by the nation for its machinery of government—a progressive undermining of confidence in our institutions which is profoundly perturbing.

On the other hand there is the Labour Party, full of a new confidence—outwardly, at any rate. Its strength is that it asserts the need for a new order, and proclaims that it knows how to arrive at it. And on the strength of this assertion it has won many adherents among thinking men of all classes, who long to feel that they are working for a great cause and a great hope. But the Labour Party's actual programme is very vague and elusive. And necessarily so; because its prophets cannot agree upon fundamentals.

Taken as a whole, the Labour Party is inspired by a genuine zeal for a better order of things. Its members desire fair play and a "square deal" for all men. Most of them in their hearts believe passionately in liberty and in individuality, and hate the idea of the exercise of tyranny by any group or class, even their own, or by any body of officials. They are, in essence, Liberals; and only do not call themselves Liberals, firstly, because they think that the Liberal party is identified with and

financed by the class of industrial employers, and looks at public affairs through their eyes; and secondly because no clear and convincing definition of the Liberal attitude, or of the way in which it can lead us towards a happier order, has ever been put before them. Many of them have adopted the formulæ of Socialism or of Syndicalism without very close examination, simply because these formulæ seem to afford methods of reaching the better order which they desire; and also because they are advocated with force and vigour by some very able men who have realised (as Liberals have not done) the immense potency of ideas.

Some of these leaders advocate State Socialism, the control of the whole machinery of production by the State through an army of officials; a solution which, in the view of many sane critics, must have the effects, first of gravely impairing all men's liberty, secondly of greatly reducing the opportunities open to individual energy, and thirdly of finally breaking the back of our national system of government. Others advocate the new gospel of Syndicalism or Guild Socialism, which would reduce the power of the State to a nullity, and create a series of vast monopolist trusts in all the great industries, which would have the whole population at their mercy; but these prophets have not yet made up their minds as to how this scheme is to be worked, and quarrel with one another almost as violently as they quarrel with the State Socialists.

These two gospels are utterly incompatible and irreconcilable. But many members of the Labour Party have not realised their inconsistency. The

Labour Party as a whole, therefore, lacks any clear and tenable body of agreed principles. This state of things may continue while the party enjoys the irresponsibility of opposition, and is not called upon to show in practice how its vague and conflicting ideals are to be realised. But it holds out little prospect of a helpful solution.

Moreover the Labour Party is, by its very name, too much labelled as the party of a class, not as a national party. And it finds it very difficult to overcome this disability ; for, though it has recently attracted many idealists who are not manual workers, it is actually controlled, because it is mainly financed, by the Trade Unions ; and the new recruits find themselves unable to influence its policy. Finally the party is in a large degree controlled by its extremist members, who are allowed an influence altogether out of proportion to their numbers both in the political party and in the Trade Unions. The policy of the extremists is not national reconstruction, but class-conflict ; not democracy, but the dictatorship of the proletariat. For all these reasons, the Labour Party in its present condition offers little hope to many men of good will who desire to work for a policy of national reconstruction and reconciliation ; it is, indeed, losing the confidence of many of its recent recruits, who joined it because it seemed to offer a prospect of hope.

Between these two groups stands the Liberal Party, a feeble remnant broken by the war and by the political manœuvres which followed it, and largely exhausted by the strain of ten years of

strenuous tenure of power. Yet, feeble as it is, it is the spokesman of a great tradition, the exponent of ideas which have inspired zeal and hope in the past, and which are capable, if intelligently re-defined, of offering a reasonable and tenable solution of our problems in the future.

It is the purpose of this book to show that the essential ideas of Liberalism, as we have tried to define them above, if they be interpreted in the more generous sense which was already beginning to be accepted before the war, *can* afford to us the prospect of a healthier and happier society, to the creation of which we all may contribute ; can give us an ideal to work towards and principles which will guide us both in framing and in criticising schemes of reform.

Liberalism proclaims that it is the duty of the community to secure for all its members real liberty. It recognises that real liberty has not yet been secured for great masses of people in our society. For real liberty must rest upon a material basis ; it cannot be enjoyed by any man unless he is sure of an adequate livelihood in return for honest work, a reasonable security against the miseries of unemployment, sufficient leisure after his work to enable him to enjoy the good things of life, protection against tyranny from any quarter, and the sense that he is not a mere " hand," but, if the phrase may be employed, a citizen of the industry to which he gives his time and strength, and a servant of the community.

Liberalism proclaims that it is the duty of the community to secure for all its members the chance

of making the most and the best of their own individuality; and it asserts that the fostering of individual character and energy is at once the primary object of a healthy society, and the surest means towards its progress and advancement. It recognises that, as things are, the mass of our people have too little chance of developing their own individuality and making the most of their powers; and that the community is indescribably weakened by this fact. The achievement of this end, which is one of the primary aims of Liberalism, demands not only Liberty in the large sense defined in the last paragraph; it demands also that every man shall have the fullest opportunity of training for his powers, both in childhood and in later life; it demands that, in the industrial world, the highest careers shall be genuinely open to talent, in such a way that no man may feel that his own advancement is won at the expense of his comrades; it demands that men of ability and originality shall have real opportunities of carrying their ideas into effect, even when they do not win official approval; it demands that a man shall have a real freedom of choice as to the kind of work he will do, so far as his powers justify.

Liberalism recognises that in all honest work there are two aspects: the pursuit of individual benefit, and the rendering of service to the community. In nearly all occupations these two motives for doing good work are not incompatible, but can mutually reinforce one another; and in a healthy society every man should be consciously actuated by both motives. We are bound to recognise that, in the present state of things, most men are

tempted to think mainly of individual benefit, and very little, if at all, of service to the community. Liberalism therefore must desire so to change the organisation of industry as to strengthen the motive of service. Some people speak of "substituting" the motive of service for the motive of private advantage. That is an exaggerated and misleading way of putting the matter. The pursuit of private advantage is not only natural and legitimate, it is a means of cultivating individuality; and it only becomes harmful when it is at the expense of other individualities and of the community. What we have to do is to bring into being a state of things which will continually remind each individual that he must serve the community as well as himself, and that only so will he make the best of himself. One essential means of creating such a state of things is to ensure, so far as may be, that the rewards which a man receives shall be in some rough proportion to the services he renders; that the enrichment of his individuality which the reward of his work lays open to him shall be proportionate to the sacrifice of his individuality which he makes in carrying on his work. This is, indeed, an essential Liberal principle; and it is obvious that in the existing order it is very far from being satisfied. It is, indeed, impossible to place an exact value upon different forms of service. Who would undertake to compare, in terms of cash, the relative value of a second-rate novelist and a good scavenger? For that reason the principle that reward should be proportionate to service cannot be laid down as a programme of action, and those who so define it are unconsciously deceiving their readers. But at

least it is possible to recognise that some forms of service or disservice are grotesquely overpaid, and that others are gravely underpaid ; and to hold the rectification of those grosser inequalities in view both in schemes of taxation and in industrial organisation.

Liberalism believes that for the purpose of realising the aims defined in the foregoing paragraphs the use of the power of the State is indispensable ; and while still adhering to its ancient belief that compulsion should only be resorted to when absolutely necessary, it holds that compulsion for such purposes is altogether desirable, inasmuch as it is used for the purpose of enlarging and maintaining liberty, and giving a fuller outlet to individuality. It is the rightful function of the State to safeguard liberty. But, just for that reason, it is desirable that the State should in the main confine itself to defining the conditions under which various activities should be carried on. Even if it finds that in any industry the demands above defined cannot be satisfied under its existing organisation, it should rather prescribe a new way of conducting it than undertake to conduct it itself ; the general principle being that the function of the State is to supervise, regulate, and judge, and to afford protection against the abuses of power, rather than to undertake the direct management of a variety of activities ; and that its main duty of regulation and protection is likely to be neglected or inadequately performed in the case of activities conducted by its own agents.

Liberalism holds that the State which exercises

the vitally important powers thus defined ought to be ultimately controlled by the free will of the whole community. It recognises that the existing machinery for making this will effective is in various ways unsatisfactory and stands in need of reform. But it will not, on that or on any ground, consent to any reduction or undermining of the ultimate supreme power of the whole people such as is advocated by one wing of the Labour Party, any more than it will assent to the overburdening of the State with a multitude of new functions, as is advocated by another wing of the Labour Party.

Liberalism holds that the expenditure of the State should be cut down to the minimum necessary for performing its essential functions, and that the extravagant multiplication of costly offices recently effected should be brought to an end by a great simplification of the machinery of central government. It holds that a reform of our system of taxation is necessary, and a bold treatment of the national debt. But this theme will best be discussed later in this essay. Here we are concerned only to indicate the broad lines upon which the central ideas of Liberalism would suggest that the problem of industrial reconstruction should be attempted.

But these generalisations are still too vague. It is necessary to get to closer grips with our subject ; and we must next attempt to answer the question, What has Liberalism to say on certain criticisms of the existing social order now widely prevalent, and how would it deal with the problems which they indicate ?

# V

## LIBERALISM AND CAPITALISM

It is all very well to talk airily about securing the material basis of liberty for all citizens. But no one has a right to make vague and large promises without being clear that the means of fulfilling them are available. Whatever the advocates of other political creeds may do, the advocate of a Liberal solution must avoid this form of dishonesty. *It is impossible to divide among the community more wealth than the community as a whole produces.* If it does not produce enough, and cannot be induced to produce more, all such promises must remain vague ideals for the future.

In the year before the war, the value of the total wealth produced or earned by the British people was estimated at about £2,000,000,000 per annum at the then value of money. Out of that there had to be somehow set aside about £400,000,000 * to form new capital and keep the machinery of production going: this would be the case under any system. The remainder, available for distribution,

* This includes foreign investments; but as these mainly consisted of British goods paid for by annual interest instead of by a lump sum, they were an essential element in the development of production.

would have been enough to provide, if divided out equally, about 13*s.* a week per head of the population, or 65*s.* a week for a family of five ; and out of that all the taxes, etc., had still to be taken. Of course it was not divided out equally ; very much the reverse ; it was divided with gross inequality. But the main point is that, even if it had been equally divided, the national product of wealth was quite insufficient to do all that zealous reformers, of whatever school of thought, desire.

No change in the distribution of wealth, however drastic, could affect this conclusion. The only possibility of a real improvement in the provision of material well-being as the foundation of real liberty is to be found in a very great increase in the amount of wealth produced by the community. Yet it is notorious that we are producing less real wealth than we produced in 1914.

What is the explanation ? We are told that the main explanation is dissatisfaction with the existing economic system. Men are not working their best, because they believe that a large proportion of the wealth they help to produce goes to those who have done little or nothing to earn it. Moreover, it is added, things will become worse instead of better until the workers are assured that justice is being done, or at any rate is being systematically pursued. And no doubt there is a great deal of truth in this. Confidence in the fairness of the existing economic system has been undermined. Confidence must be established before any economic system will work well.

Ask almost any working-class leader what is

wrong; and he will tell you that it is the whole "capitalist system" that is wrong. "Capitalism," he will say, "must be eradicated, if confidence is to be re-established."

Under these conditions Liberalism, like any other political creed, must define quite clearly what is its attitude towards "Capitalism" if its policy is to be understood. This would be easier if it were quite certain what exactly is meant by the term "Capitalism," which is used rather vaguely and loosely.

We all know what "Capital" is: it is wealth withheld from consumption, mainly in order that it may be used for the production of further wealth, as the farmer holds back part of his crop from the market in order that he may use it for seed. Every man who has bought a tool out of his savings has to that extent created capital. We are all further agreed, whatever our political opinions, that capital in this sense is indispensable for the conduct of industry. Roughly, in a complex society like ours, we have to set aside year by year about one-fifth of all the wealth we create for the purpose of keeping our industries going and expanding them. If we failed to do so we should soon be faced by ruin; just as the whole world would die of starvation if all the farmers used up all their crops instead of keeping back a part for seed. In spite of its many defects, the existing economic order has this unquestionable merit, that it has somehow secured the setting apart, year by year, of the requisite amount of capital. And no system will succeed unless it somehow succeeds in doing this.

But we are all agreed as to the necessity of Capital. It is not this that the critics of "the Capitalist system" attack. What is it?

Many of them say that what is objectionable is the private ownership of capital; they urge that all capital should be owned by the State. And they further protest against the payment to the owners of capital of a substantial share of the product of industry, in the form of interest.

Now, as things stand, the new capital which we annually require is partly made by the creation of reserves out of the profits of trading-companies, whose shareholders forgo for this purpose the immediate distribution of part of the profits; and we shall have more to say about this form of capital later. But the bulk of new capital, and especially that which finances new enterprises, is made by the savings of individuals, who do not spend their whole income, but lend the unspent balance to industry. It is true that a large proportion of the capital annually created—though not so large a proportion, by any means, as many people think—comes from men who have incomes so large that they cannot easily spend them all, and who therefore scarcely deserve to be praised for "thrift" when they use the unspent balance for the further increase of their riches. It is true, also, that this is an unhealthy state of things; though we have to remember that it is largely the existence of this very rich class which has ensured the setting apart, year by year, of a sufficient amount of capital to keep our industries going.

But even the very rich, and still more the in-

numerable people of modest means who annually save a share of their income for investment, render a very great service to the community as well as to themselves when they withhold wealth from consumption in order that it may be used as capital. They would not save, or at all events they would not lend their savings, unless they were assured of a reward for doing so. The reward takes the form of interest. And if private ownership of capital and the earning of interest are to be prohibited, that means that private saving must be prohibited—or that every man's savings must be confiscated as fast as he makes them. Strictly speaking it should mean that nobody would be allowed to own his own tools ; for all tools, as we have seen, are capital.

If private ownership of capital is to be prohibited, some other means of securing the necessary capital must be found. Some men, thinking only of the capital sunk in railways and mills and so forth, and forgetting that these are always wearing out, and having to be renewed, imagine that it would be enough if the State were to confiscate all existing capital. The Bolsheviks tried this device in Russia. The result was that nobody created new capital by saving, since it was obviously futile to do so ; and in the absence of new capital the whole industrial system broke down, with the consequence of widespread ruin and starvation, which could only be partially remedied by forced labour or slavery.

Some think that the State ought to be able to get all the capital it needs by simply requiring that a percentage of the product of every industry should

be set apart for this purpose. This would, of course, amount to compulsory saving all round. There would be no individual choice or individual effort in it. It is assumed that the workers in every industry would accept this arrangement, and forgo the increase in their wages which they might otherwise have obtained. But we have seen how the miners, when they realised that the almost bankrupt State was making a profit out of the mines, demanded that this profit should be distributed. It is not impossible that the same thing might happen again. In truth, the majority of Socialists recognise that even in the Socialist State capital would have to be drawn largely from private savings, on which interest would have to be paid; and that means private ownership of capital.

What is the attitude of Liberalism on the private ownership of capital? Unquestionably it is that individual thrift is not only the one sure mode of providing capital, but the best; and there will be no individual thrift unless a man is allowed to own what he saves. The Liberal would also hold that the exercise of thrift, and of intelligence and attention in disposing of the capital created by thrift, is one of the most valuable and useful ways of expressing individuality, of stimulating individual energy, and of diffusing interest in and knowledge of the industrial activity of the country. Far from agreeing to the abolition of the private ownership of capital, the Liberal would desire to extend it more widely; and in the ideal Liberal State everybody would have the chance of creating and owning capital by thrift, while at the same time everybody would

earn the bulk of his income by direct work of service to the community.

This is not to say that the ownership of capital as things now are is satisfactory from the Liberal point of view. Very much the reverse. Though the number of those who own a little capital is in England immensely larger than is generally realised, it is still true that far too great a proportion of the nation's capital is owned by a small number of people. These great accumulations of capital are dangerous, because they place too much power in the hands of the holders. But the true cure for this is, not to abolish the private ownership of capital (which is, in fact, impossible), but to diffuse it more widely.

There are many ways in which this can be forwarded ; and these are entirely in accord with the principles of Liberalism. It is possible to forbid or to hamper some of the more objectionable ways of accumulating great masses of capital. It is possible to restrict the amount of capital that may be handed down by inheritance from generation to generation. It is possible to help the break-up of the great accumulations by means of heavy death duties and in other ways, and this is a long-accepted part of Liberal policy : the Death Duties are, as we know them, a Liberal invention. It is possible to encourage the habit of saving and investment among the mass of the people by such means as were used to attract the small investor during the war, and by making banking facilities (of a more convenient kind than the Post Office Savings Bank provides) available for people of modest means, and perhaps also by

insisting that industrial companies shall offer facilities to the small investor, especially to the workpeople in the industry.

The more the capital required for the nation's activities is provided by the thrift of hard-working folk, and the less it is provided by the giants of finance, the better it will be for the nation. Indeed, unless the hard-working people learn to create capital by saving on a large scale, the reduction of large fortunes may actually hinder the development of industry by depriving it of the source from which it now draws much of the necessary capital. But in actual practice very widespread investment will only become possible when the mass of the people have incomes sufficient to make saving possible ; and that will only be when the nation is producing far more wealth.

So far as concerns the ownership of capital, then, Liberal policy must aim at distributing it as widely as possible, and at using every means of discouraging very great accumulations of capital in a few hands. This is the true path to economic stability and economic health.

If the term " Capitalism " means the creation of capital by private thrift, and its ownership by those whose thrift has created it, Liberalism must accept and defend Capitalism, but at the same time must aim at removing the evils of the present system by reducing great accumulations of capital and by doing everything that is possible to bring about a very wide diffusion of capital.

## VI

### LIBERALISM AND CAPITALIST CONTROL

But there is another sense in which the word "Capitalism" is used by those who criticise the existing order.

In this significance "Capitalism" is condemned not because it means private ownership of capital, but because the owners of the capital invested in industry are regarded as claiming a position of predominance out of proportion to the value of the services which they render and in itself inherently unjust. They are, in fact, treated as owners of the industry, and this position of ownership is shown in three ways: (*a*) by the fact that all the residual profits, after paying wages and salaries for the labour of hand and brain, are regarded as belonging to the owners of the capital, however large these profits may be; (*b*) by the fact that the owners of the capital control the management of the industry by appointing its directors, who conduct its affairs primarily with a view to earning the maximum profit for the owners; and (*c*) by the fact that the owners of the capital can, when they see fit, wind up the business and sell its plant and goodwill without regard to any other consideration than their own financial advantage.

It must be recognised that this does in theory, and largely in practice, represent the principles and methods on which the greater part of industry, not only in England but throughout the world, is to-day carried on. This is the system which is known as "Capitalism," and which is to-day the object of the most acrimonious criticism. It is opposed on behalf of Labour, which claims that it has a greater concern, and a superior right to be consulted, in the management of industry. And the feeling which lies behind this opposition is largely at the root of what is called the conflict between Labour and Capital.

Yet it should be noted that the question of the control and management of industry does not concern Labour and Capital alone. It concerns all the factors which are necessary for the efficient conduct of an industry. And these factors number at least five, all of which are indispensable and no one of which could do anything without the co-operation of the others.

(1) In the first place there is the ability which shows itself in initiation, organisation, and direction. This is always a vitally important element. But it is more important to-day than it has ever been, because we are only at the beginning of a period when everything will depend upon our fertility in devising new methods, making experiments, and opening up new industries. Here lies the main hope of our being able, as a community, greatly to increase our total production of wealth, and therefore to make possible a wider diffusion of material well-being. This hope depends primarily upon the

scope which our system gives to men of ideas and initiative. The service which such men can render to the community as a whole is so immense that it will repay a hundredfold anything that may be expended to secure it. In discussions on economic problems this essential creative element in production is too often identified with capital, because the initiators of enterprises often themselves supply the capital necessary for carrying them on, or take their remuneration in the form of interest on "founders' shares." The identification leads to a great deal of loose thinking. The ability which initiates and directs is a distinct element in production, which has its own well-earned claim to a share of the product, and still more its plain title to a very powerful voice in the management of the industry which it enriches.

(2) The second indispensable factor is executive labour—of many different kinds, including both manual labour and brain labour. There is too great a tendency, when we speak of labour in industry, to think only of manual labour. Obviously manual labour and brain labour are equally indispensable; each would be impotent without the other, just as both would be helpless without the co-operation of the remaining factors in industry. We all recognise in theory that this is so, and none more clearly than the ablest leaders of the Labour Party. But in actual practice it is mainly manual labour that we usually have in mind when we think of labour as a factor in industry, because it is, broadly speaking, manual labour alone which is represented by the Trade Unions, which commonly

*act* (whatever they may *say*) as if " Labour " meant manual labour alone. We have to be constantly on our guard against the danger of overlooking the factor of brain labour in all its very various aspects ; and for this reason there is something to be said for regarding it as a distinct factor, especially as its interests, though assuredly not incompatible, are by no means identical with those of manual labour. In any case both types of labour are deeply concerned in the prosperity and the right conduct of the undertaking in which they are engaged, and upon which their welfare depends ; and the traditional view that so long as its agreed wage or salary is paid, Labour, whether of hand or brain, has nothing further to do with the affairs of the undertaking in which it is engaged is a shallow and indeed an insulting view. On the other hand the view that executive labour *alone* produces the wealth made by the undertaking, and ought alone to be considered, is even more shallow.

(3) The third indispensable factor is Capital. Those who provide the capital by which an industry is carried on, and risk their savings in doing so, are obviously deeply concerned in the prosperity of the industry. But it may fairly be said that, merely as the providers of capital, and apart from any share they may take in the actual conduct of the undertaking, they have *not* the right to be regarded as the predominant factor, as the exclusive owners of the undertaking. The capital in an undertaking is commonly provided in part by the initiators ; even if the initiators supply no capital directly, they are often credited with capital as a

form of payment for their ideas and their work. But this, though it may often be necessary, is illogical and confusing. The initiator's or organiser's claim to a share in controlling the undertaking rests far more upon the services which he renders than upon the capital which he supplies—far more upon his brains than upon his money; and it would avoid much loose thinking if this could be clearly recognised. Again, there is no logical reason why the capital should not be in part provided by the workers in the undertaking, and it would be highly satisfactory if this were more generally the case. In that event the workers owning capital would have a double interest and concern in the prosperity of the undertaking, and a double claim to be consulted. But as things are to-day, the bulk of the capital is often provided by persons not themselves engaged in the work of the undertaking. And while it is obvious that such persons are rendering an indispensable service to the undertaking, which could not be carried on without their help, it is plainly not right that they should be regarded as its sole owners, and that it should be carried on exclusively in their interest.

(4) But besides the three factors already named, there are two others, equally important, which are commonly overlooked. The first of these consists of the consumers of the product of the undertaking. Clearly the prosperity of the undertaking must depend upon the extent to which it is able to meet their needs. Indeed, every undertaking may be said to exist, in a sense, for the service of its consumers. And while in some cases it is difficult to

isolate or recognise a distinct body of consumers served by a particular undertaking, in other cases this is quite easy, as in a dock undertaking, which exists for the service of the shipping resorting to a particular port ; or, again, as in some branches of retail trade. It may fairly be said that the consumers of the product of an undertaking are definitely contributors to the prosperity of the undertaking, and are genuinely concerned in its proper management.

(5) Finally there is the community as a whole, represented by the State. Manifestly the success of every undertaking depends upon the help given to it, and the favourable conditions provided for it, by the community and by the State. From the State it obtains the protection of the law, the existence of settled order and of the general atmosphere of confidence and security without which no industry can be successfully carried on. To the infinitely varied activities of the community it owes good communications, the presence or neighbourhood of kindred industries which facilitate its own work, easily accessible markets, and a hundred other conditions of success, which neither Management, nor Labour, nor Capital could create of themselves. Moreover the community is deeply concerned in the way in which every industry is conducted. It may be, or may seem to be, in the interest of one or other of the active factors in an industry to keep down the volume of its production. That is never in the interest of the community, which must desire the maximum production of wealth with a view to the maximum diffusion of

comfort. And it is very materially in the interest of the community to ensure that every industry is so conducted as not to be hostile to good citizenship.

The conduct of industry is not, therefore, the concern solely of Labour or Capital. It depends upon the co-operation of at least five indispensable factors. *And any assertion on the part of any one of these five factors—even the community as a whole—that industry exists exclusively for its benefit, and ought therefore to be wholly controlled by it, is untrue and unjust, and is therefore likely to undermine confidence and to produce, in one quarter or another, a sense of grievance.*

We must recognise that in our existing order this sort of claim is in fact made and enforced, in a large degree, on behalf of the owners of capital ; though, as we shall see later, the whole trend of modern development in the organisation of industry is in the direction of modifying or qualifying this claim.

It follows that if we mean by Capitalism a system in which the owners of the capital invested in an industry are treated as the owners of the industry, Liberalism must declare itself opposed to Capitalism. For it is bound to contend that all the factors concerned have their own distinct and appropriate rights, and that therefore industry should be organised on a basis which will recognise the partnership of all these factors.

But before we turn to consider how this principle of partnership should be wrought out in practice, it will be well to consider the other alternatives to Capitalism which have been put before us.

## VII

### THE SOCIALIST AND SYNDICALIST SOLUTIONS

THE exaggerated assertion of the rights of Capital has led to the promulgation of drastic projects of change, two of which, fundamentally inconsistent with one another, are advocated by various elements in the Labour Party. We have already considered these projects in general terms ; but it is necessary to look at them a little more closely.

Both of these projects are marked by one outstanding feature. They propose to remedy the exaggerated claims of Capital by wholly disregarding the claims of Capital to any concern in the management of industry. The ground of complaint against Capitalism is that, though Capital is only one of the five indispensable factors in production, it nevertheless claims a predominant position ; yet these schemes propose to give a similarly predominant position, or, rather, a more predominant position, to only one of the other indispensable factors ; though one scheme chooses one factor for special favour, and the other scheme chooses another.

The Socialist doctrine contends that the ownership and control of all industries should be assumed by the State on behalf of the community. Some Socialists, frightened at the thought of the confusion which would result from the immediate and sudden

execution of this gigantic project, explain that it must be done gradually, beginning with certain obvious industries like the railways and the mines. But we need not attach any weight to this qualification. If it is once accepted that the only just method of organising industry is under State ownership and control, the immediate result of beginning with certain industries only must be to produce dislocation in the rest ; for the workers in the other industries would fail to see why they should be denied access to the millennium, and would be apt to do their best (and they could do a great deal) to make the conduct of these industries impossible, with the result of infinite confusion, loss, and distress.

The argument most commonly advanced against the Socialist system is that it involves control by an army of bureaucrats, and is likely to lead to incompetence, delay, and inefficiency. We need not deal with this argument, though it has its importance; the experience of the war period has driven home the moral. Moreover no one denounces with more ferocity the " Prussianism " and the red-tape of State administration than that wing of the Labour Party (daily growing in strength) which has adopted Syndicalist or Guild-Socialist ideas.

It is more important to consider what would be the effect of the Socialist scheme upon the development of new ideas, new processes, new inventions, new industries, upon which we must mainly depend if we are to increase the nation's wealth sufficiently to diffuse prosperity widely. Under the existing system the initiator of a new idea can get a few owners of capital to take the risk of trying the

experiment. In a large percentage of cases the experiment fails—it is only by taking such risks that progress can be made—and the owners of the capital lose all that they have ventured. But the venture is worth making because if the experiment succeeds they may make very large profits ; and it is this speculative hope which makes it possible for new ideas to be developed. Under the Socialist scheme the inventor of a new idea would have to persuade a Government official to agree to the experiment, and the Government official, since he would not be dealing with his own but with public money, would have to get the consent of the Treasury. He would know that he would be liable to severe criticism if the experiment failed, and public money were wasted. Is it not obvious that new ideas would stand a very poor chance of being fairly tried ?

But there is a still deeper objection. If the State became the sole employer of labour, as it would be under the Socialist scheme, it would necessarily become a direct party in every controversy about wages and the conditions of labour ; and it would also have complete control, without any competition, over the types of goods which the consumer could purchase, and over the prices he would have to pay. That is to say, both workers and consumers would be far too much at the mercy of the officials who would represent the State. As things are now, the State (except in " controlled " industries) stands aloof from the conflict between employers and employed, and from the conflict between producers and consumers. It exercises a very powerful restraining influence ; it can, and

often does, intervene in a dispute ; it can perform the supremely important part—the most essential function of the State—of protecting the essential rights and liberties of all citizens against any abuse of power. But under the Socialist scheme the State must necessarily abdicate this function. It must become an interested party, directly involved in every dispute. All the hostility now directed by aggrieved employees against their employers would be turned against the State. And there is no use saying that there would be no disputes when the State became the employer. We all know that there would. We all know that there have been frequent disputes between publicly owned services, such as municipal tramways, and their employees. We know, also, that the power of the State to bring about peaceful settlements of industrial disputes has been greatly impaired during the war period by the very fact that the State had largely stepped into the place of the employers, and was therefore regarded by discontented workpeople as their enemy. That is a result which is apt to be disastrous for the welfare of the community.

One further result of the Socialist scheme ought to be noted. It would complete the ruin of Parliament. Parliament is already prevented from doing its work properly, and from exercising adequate control over the officials of the great departments, by the mere fact that it has too much to do. What the result would be if the management of all the industries of the country were added to its present functions can only be left to the imagination. Most certainly it would be quite unable to exercise any

effective supervision over the armies of officials who would be required, and these would become in practice irresponsible.

More than that, a general representative body is quite incompetent to deal with such vast and complex concerns. The members of a Socialist parliament would inevitably devote themselves to sectional interests, and would run very grave dangers of corruption. And Parliament would be quite incapable of performing its supreme function of watching over and protecting the interests of the community as a whole. In the desperate attempt to get over this difficulty, Mr. and Mrs. Webb actually propose that there should be two co-ordinate parliaments, one for political, the other for industrial questions. That would not get over the difficulty. Even a special industrial parliament would not be competent to deal with *all* the problems of *all* the industries. It would only add the new difficulty of a constant conflict of authority between two supreme parliaments, for it would be quite impossible to mark off clearly and finally the spheres of the two bodies.

The desperate difficulties in which the Socialist scheme lands us as soon as we begin to work it out in practice has encouraged the rise of another scheme, violently in conflict with State Socialism, but nevertheless advocated by many members of the Labour Party, some of whom do not even recognise the fundamental inconsistency of the two schemes. This is the project known as Syndicalism or (in its kid-glove form) as Guild Socialism. It would hand over to the Trade Unions (which are

somehow to be made to include the brain workers as well as the manual workers in each trade) the absolute control and management of each industry. The various prophets of this project are at loggerheads as to how it should be worked out in detail. They are agreed only in saying that the producers must have complete control, and in practically abolishing the power of the State to make any conditions at all as to how industry should be conducted ; and they assert that this will lead to a great enlargement of liberty.

Assuming for the moment that it would increase the liberty of the workers so far as their productive work was concerned, it is obvious that it would not increase the liberty of the consumers, since it would set up a vast system of monopolist trusts, which would have the purchaser absolutely at their mercy, and which, unlike Capitalist trusts, would be in no way checked or controlled by the State. And as every individual only takes part in the production of one article, or a fraction of an article, but consumes many thousands of articles, on the balance every man would suffer.

But even in his productive work, it is hard to see how any man's liberty would be increased. It appears that his payment is no longer to be called " wages " but " pay " ; but it is hard to see what is gained by a change of words. It appears further that the worker is not to receive this pay in return for work, but on the ground that he is a human being. If that means anything, it means that he is to be paid the same whether he works or not ; which is hardly likely to bring about the great

increase of wealth-production that is necessary if the whole community is to be provided with the means to a good life. It appears, also, that the officials of each industry are to be elected, instead of being selected on the ground of their capacity; if that means greater freedom (though it is hard to see how it does) it certainly does not mean greater efficiency. It appears, also, that a man may be expelled from the Guild or Trade Union if he offends the elected officials. What will happen to him when he is expelled? He cannot go to another employer, for there will be no other employer in his trade. And he cannot get admission to another Guild or Trade Union. This may be an enlargement of liberty, but it does not look like it.

But in truth it is mere waste of time to discuss this undigested and ill-thought-out proposal. It is inspired partly by a well-meaning loose-thinking idealism; but it is also partly inspired by mere impatience, by venom and by hate; and hate cannot be the parent of justice.

We have agreed that the Capitalist system of organising industry has grave defects, and that its central idea—the exclusive ownership of industry by the owners of the capital invested in it—is fundamentally unjust, because it gives an undue predominance to only one among the five indispensable factors in industry. But when all is said, the Capitalist system has produced very marvellous results; and although this should not blind us to its defects, it is necessary to recognise the facts if we are to think sanely on these difficult problems.

It has been under the Capitalist system that man has acquired a control over the powers of nature beyond what anybody could have dreamed of a hundred and fifty years ago. And the boundless energy in working out new ideas which has led to this result, even if its principal motive has been the making of gain for individuals, has at least enabled us to support a vastly increased population in a degree of comfort far surpassing that enjoyed by any generation of our ancestors. Apart from the dregs of our population (who form the greatest shame of our civilisation) no one who will honestly consider the facts, with adequate knowledge, can deny that in the general standards of life and in the variety and range of opportunity open to nearly all men, the men of our generation—the poor as well as the rich—are far more advantageously placed than the men of any previous generation. That is due to the amazing increase in the production of wealth available for distribution which has been brought about during the period of Capitalist ascendancy. It has been accompanied, and is still accompanied, by many injustices. It has not succeeded in avoiding the denial to many thousands of the chance of making the best of their own lives. But that can be said equally, and probably with even greater force, of every system of organisation that has yet been tried upon this planet.

A further achievement of the capitalist period has been the immense development of international trade, which has been fostered by the restless search of individual enterprise for new modes of wealth-making. To us this development is of deeper

concern than to any other nation ; for we depend for our very existence upon foreign trade—upon our ability to produce, and to sell to other peoples, at prices they will pay, sufficient quantities of goods to purchase the food-supplies without which we should perish. Our dependence upon export trade for the very means of subsistence has become so absolute that, in any changes we may make, we must be perpetually on the alert lest we lose the advantage in this sphere which has been won for us during the capitalist period.

But there is another achievement of the capitalist period, not less important, which offers the means of rectifying the evils of the system. During the capitalist period, and side by side with the organisation of capitalist power in the economic sphere, there has been developed in the political sphere a democratically controlled State, which (whatever its defects) stands outside the economic conflict, and is able to perform, and has in many respects, though imperfectly, succeeded in performing, the function of safeguarding and protecting all men against the abuses of power.

We are all agreed that in the new era now opening we must use the power of the community more courageously than we have hitherto done to banish the injustices and inequities that defile our civilisation, and in particular, as part of that great task, to remove the fundamental injustice which gives to the possessors of accumulated wealth or capital a degree of power out of proportion to the services which they render. But in doing so we must make sure that we do not endanger the one outstanding

good result of the Capitalist system—the rapid increase of wealth by the exercise of adventurous initiative and energy ; for without a great increase of wealth we cannot give happiness to our people. And we must also make sure that instead of weakening we strengthen the power of the democratic State to act as the guardian of the interests of the whole community, and to protect the liberty of all men against the abuses of power.

The two mutually incompatible gospels put forward by the prophets of the Labour Party offer no prospect of fulfilling these ends. In the first place, they are both unworkable ; they are both untried devices, the detailed operation of which has not been clearly wrought out by any of their advocates. In the second place, they are both marked by the same defect as Capitalism, namely that they give a preponderant place to only one of the five indispensable factors in productive industry, and therefore ensure endless bitterness and strife. In the third place, they both seem certain to result not in an increase but in a diminution of the amount of wealth available for distribution ; and, what is even more important, they are likely to endanger the export trade by which we live, since neither the Socialist nor the Syndicalist system is likely to concentrate its attention upon producing goods at prices low enough to command foreign markets. Finally—and this is perhaps the most important of all—they both threaten to destroy the power of the democratic State to act as the guardian and protector of the liberty of all citizens.

But to say this is not to say (as the defenders of vested interests habitually contend) that there is no alternative to the present system. We have next to consider how Liberalism would propose to deal with the industrial problem ; how we can hope to approximate to a fair adjustment of the rights and claims of the five indispensable partners in the conduct of industry.

## VIII

### THE PRINCIPLES OF LIBERAL INDUSTRIAL POLICY

While Liberalism is compelled, for the reasons we have given, to discard both the State Socialist and the Guild Socialist schemes as promising even worse results than the present system, this does not by any means imply that Liberalism is satisfied with the present system. On the contrary, Liberalism must regard the present system as unfair, and as standing in need of far-reaching changes ; and this for three principal reasons :—

(1) Because the system permits excessive inequality in the distribution of the products of industry, the owners of capital, in particular, being too often enabled to take a share of the product out of all proportion to the value of the service they have rendered :

(2) Because the system too markedly dissociates the enjoyment of income from the performance of social service, and unduly emphasises the motive of gain, thus weakening the motive of service :

(3) Because the system does not give a fair chance to every man of making the best of his own individuality, and thereby impoverishes the whole community.

When we set out to define how Liberalism should

endeavour to cure these evils in our civilisation, there are two fundamental principles which must be laid down at the outset.

The first is that we must recognise and loyally accept the facts of the situation, and not take the easy course of shutting our eyes to facts which do not suit our theories. One outstanding fact which governs the whole economic situation is that we cannot, in these islands, support ourselves. We live by our export trade, which brings us the food necessary for our sustenance. If we are to earn enough wealth to make possible a universal good standard of well-being among our people, we *must* produce goods cheaply enough to command large foreign markets, and this brutal fact, which cannot be argued away, must govern all our policy in regard to wages and prices.

The second principle is that there can be no single, sweeping formula or panacea, such as those which State Socialism and Guild Socialism put before us. Not only does Liberalism believe in variety of method and in abundant experiment; the industries by which our wealth is created vary so widely in their conditions and in their stages of development that no single formula could possibly cover all their needs.

Some industrial undertakings, especially in their early and experimental stages, can only be expected to thrive under the complete control of an individual enterpriser, often a capitalist who is willing to risk the total loss of his money on the chance of achieving great success. Others may be controlled and managed by the workers with hand and brain

engaged in them, borrowing on the market, or supplying themselves, the capital they require. Others may be best conducted by organisations of the consumers whose interests they exist to serve. Others—well-established concerns following understood methods—may lend themselves to a variety of different experiments in the co-operation of the various factors of production, labour, management, capital, the consumers. Yet others, more especially great monopolies or public services, may be best carried on under public ownership and control, whether on the scale of the municipality or on the scale of the nation. In a free, progressive, and enterprising community we ought to contemplate and welcome an infinite variety of method. And such a variety is wholly in accord with the ideas of Liberalism, which does not believe in cut-and-dried formulæ.

It is worth noting that even as things now are, though control by the owners of capital is the general rule, there is much greater variety than people generally recognise—much greater than the State Socialist or the Guild Socialist theories would permit. There are great undertakings in which the ultimate control rests with the consumers, who provide the bulk of the capital required, such as the great Co-operative Societies. There are undertakings in which the amount of the return taken by capital is strictly limited to a fixed rate of interest, the balance being wholly spent upon social service, as in the Public House Trust Companies or the Garden Suburb Tenants' Companies. There are statutory public trusts in which the same rule holds,

like the Mersey Docks and Harbour Board, which is forbidden to make any profit. There are undertakings managed wholly by the workers, such as the small Co-operative Production Societies, and the recent experiment in Building Guilds. There are very numerous undertakings owned by municipalities, the profits of which go to the relief of the rates. And there are a great many different kinds of experiments in Co-partnership or Profit-Sharing as between employers and employed. All these are departures from a purely capitalist system. The work of the Co-operative Societies and of the municipalities is already on so great a scale as to constitute a material modification of the "capitalist" character of our system. It is no longer true to say that industry is managed on a purely capitalist basis. Industry is feeling its way along many new paths, some suitable for one kind of work, others suitable for another. It is the mark of wise men to learn from experience rather than to act on abstract and untried theories spun from their inner consciousness. We can learn a great deal from these experiments, and the more varied they are the better.

Not only are many new experiments in industrial organisation now being made, but there are two very instructive developments affecting all the regular capitalist undertakings which suggest that a change is gradually taking place in their character.

The first of these is the fact that an increasingly large proportion of the capital invested in industry takes the form of debentures or preference shares, which earn only a fixed and limited rate of interest,

and do not get any share of the residual profits beyond this. So far as shareholders of this type are concerned, it is not true that the concerns in which their money is invested are run solely to earn dividends for them. The steady increase in the proportion of the capital invested in industry which is obtained on these terms shows that there is an immense class of thrifty investors who desire only a moderate return on their savings, with a reasonable security. This is quite different from the aims often attributed to the "bloated capitalist"; and the relative growth of this type of capital is a very significant thing.

The second development is much more recent. It is the assertion, on the part of the State, of a right to a share in exceptional profits earned by industrial concerns. This claim was first put forward as a part of war finance in the form of the Excess Profits Duty. That is, as it stands, an extremely unfair tax, which gravely penalises enterprise, presses with great injustice on some people while it lets off others more lightly, and lends itself to deception and evasion. It cannot last in its present form, because the basis on which it is levied is wholly unfair. But something of this kind is likely to become a permanent part of the national fiscal system, because it is manifestly reasonable that when a concern is exceptionally prosperous it should share its prosperity with the community, to whose co-operation it is in no small measure due.

We are thus obviously living in a time when the economic system is undergoing a transition, a transition the tendency of which, as a whole, is to

minimise the more objectionable features of capitalism. We ought to study and understand these changes and experiments, in order that we may so far as possible guide the stream of change in the direction which we desire. It is much easier and more effective to make use of a powerful current than to try suddenly to deflect it into a wholly new course, in which it may very easily burst its banks and destroy the fields.

But whatever different methods of organisation and control may be set on foot by the enterprise of public-spirited men in a free community, there is one essential condition of social health which is demanded by Liberal principles. The democratic State must be kept as free as possible from being an immediate party to the controversies and the friction which must always arise in the adjustment of the claims of the various factors in industry, in order that it may perform with impartiality its primary function of safeguarding the rights and liberties of all citizens.

Even when an industry is brought under public ownership on a national scale, the State as such should, on this principle, hold aloof from the business of direct management. Its duty should be to define the general principles in accordance with which the work is to be done, to see that the right people are chosen to carry it on, to hold itself free to criticise the results of their work, and to devise, when necessary, the means of remedying any injustices or failures that may be developed. In industry, as in other spheres, the function of the State is not to do the work itself, but to lay down

the rules under which it is to be done in such a way as to secure the highest degree of justice and freedom ; and then to make sure that these rules are observed.

In laying down rules for the conduct of industry, a Liberal State will have regard to the rights and claims of each of the five main factors in productive industry ; it will not, like the State Socialist and Guild Socialist schemes, pay attention to only one of them. It will think of these five factors as partners in the production of the wealth by which the nation lives ; partners who cannot be expected to work well together unless all get their due. It will therefore endeavour, both in respect to the sharing of the product and in respect to control, to secure for each factor its due, and to make it easy for them to co-operate in zeal and harmony, while leaving freedom for all sorts of experiments and varieties of method.

What are the reasonable claims of each of the five contributory factors ? What are the conditions which will evoke the best activities, not of one, but of all five ?

(1) Initiative and organising ability, in the first place, ought to be assured of a solid reward proportionate to its efficiency, since it is the most potent creative force in industry. This reward, in most cases, may appropriately take the form of a commission either on the total turnover or on the surplus of the industry. It is generally undesirable that it should take the form of an unlimited share of the surplus profits of the industry, based upon a nominal holding of capital ; because this causes

confusion between the return on capital (which is interest) and the rewards for initiative effort. But the main thing which this kind of ability needs and desires and ought to get, in the interest of progress, is a very powerful voice indeed in the management of the concern. A very powerful voice, but not absolute authority, which can never be safely trusted to any human being.

(2) Labour of hand and brain is entitled to expect from the industry to which it is devoted (*a*) a wage sufficient to maintain a man and his family in reasonable comfort according to current standards, this being the primary claim on the income of every concern ; (*b*) additional rewards for special skill or exceptional energy ; (*c*) reasonable security against the loss of employment through causes not within control, such as fluctuations of trade ; (*d*) hours short enough to avoid serious fatigue, and to leave a real margin of leisure for the enjoyment of life ; (*e*) such a degree of influence in the conduct of the business as may make a man feel that he is not treated as a mere commodity hired in the market, but as a partner in service, a citizen of the industry ; (*f*) real opportunities and prospects of promotion such as may give interest to his work and encourage him to put his heart into it.

(3) Capital must receive a fair rate of interest, otherwise it will not be forthcoming ; and it is entitled to such a share in the management of the concern as will enable it to ensure that its stake in the concern is not being endangered by rashness, or by the exaggerated claims of the other participants. Where the risk of total loss is slight, capital

has no more than a right to the market rate of interest; it has no right to bonuses, or distributions of free shares. Where the risk of loss is very great, as in new and experimental business, capital must be offered the chance of very large profits, otherwise the funds necessary for useful but risky experiments will not be forthcoming.

(4) The consumers of the product of an industry have the right to receive the commodities produced by the industry at the minimum price compatible with the fulfilment of the conditions already laid down. Where there is free competition among a number of concerns in the same industry, this may be trusted to secure the desired end. But where the industry has been organised on a monopolist basis, either under public ownership or otherwise, the consumers ought to be safeguarded by State action, and may in some cases legitimately claim to be represented in the management of the industry.

(5) The community, and the State acting as its representative, have the right to be assured that every concern carried on under State protection produces for the benefit of the community the largest possible amount of wealth, without artificial restriction; and where such anti-social restriction is being practised in the presumed interest either of capital or of labour, the State should have the right to intervene, and to inquire into, and if possible to suggest the means of removing, the causes of the evil. Moreover, since the State and the community contribute in innumerable ways to the successful working of all industries, they have in theory a right to a direct share of the product.

It would be unwise to enforce this claim in all cases, since this would hamper the development of industry; but assuredly the State has every right to claim a share in the product of concerns which are enjoying exceptional prosperity, especially when the prosperity is due to conditions over which the organisers of the industry have no control.

Liberalism aims, then, at bringing about a fairly adjusted co-operation or partnership between all these factors in industry, in which no one of them shall have an exclusive mastery but all shall have a just share of the product, and also such a share of control as may enable each to feel that it is treated as a partner, and as may be appropriate to the part each plays in the common effort.

Now this is plainly not at all easy to secure. We cannot simply lay down a few broad and rigid rules, to be applied to all industrial undertakings alike, defining how the product is to be divided, and how the functions of control are to be shared. We cannot do this for two reasons: firstly because the conditions vary infinitely in various industries, and in especial the relative importance of the various factors differs widely from case to case; and secondly because the laying down of any broad and rigid rules would be to destroy just that elasticity and freedom for experiment which it is most important to maintain.

But the difficulty of finding a single cut-and-dried solution for this complex and many-sided problem ought not to make us feel that we are on the wrong lines. On the contrary we ought to recognise that, in dealing with a problem which has the complexity

and variety of life, any cut-and-dried solution is certain to be inadequate.

No one would deny that the best way of solving our problems would be by means of frank discussion and co-operation between representatives of the various factors in each industry, especially because this would render possible the variety of method necessary to meet the varying needs of different industries. And the freedom and variety thus attainable would be wholly in accord with the ruling ideas of Liberalism. Unhappily the atmosphere of mutual suspicion and distrust, now widely prevalent, has made such frank discussions hard to achieve. The primary objects of a Liberal industrial policy must therefore be (1) to remove, so far as possible, the more obvious causes of this distrust, and (2) to set on foot appropriate machinery whereby the partner-factors in industry may freely adjust their own relations with the support and encouragement of the State.

# IX

## THE GENERAL CONTROL OF INDUSTRY AND THE TREATMENT OF UNEMPLOYMENT

THE first fact which must strike any student of the existing system is that, so far as concerns the rates of wages, the hours of labour, and the distribution of work among different types of workers, there already exists a system of divided control, since all these matters are settled, in all the main industries, by negotiations between the Trade Unions and the accepted spokesmen of the directors of the industries, who speak not only for capital but for management.

But there are two defects in this system. The first is that it is only the manual labour engaged in industry which shares in this divided control; brain labour has, as a rule, no part in it; nor have the consumers. The second defect is that it *is* divided control, not partnership. It is a relation of conflict, not of co-operation.

Undoubtedly the system of collective bargaining has brought about great improvements in the conditions of industry; and it gives us the foundations upon which something better may be raised. But it cannot be regarded as a healthy state of things that the bargaining should be carried on, as

it now generally is, under a threat of forcible action ruinous to all concerned. Under such conditions each side to the bargain naturally and necessarily thinks primarily of its own interests, and often takes a short-sighted view of how these interests can best be served.

It ought to be a recognised and self-evident principle that the well-being of the worker and the productive activity of the industry are in the fullest sense mutually dependent. The acceptance of this principle is impeded, on the side of the worker, by his conviction that the sole end for which the industry is conducted is the making of profits for the owners of capital. It is impeded, on the side of the organisers and directors of the industry, by the belief that the effect of many Trade Union methods and stipulations is to place needless difficulties in the way of production, and that, though the purpose of these restrictions is the defence of the worker, their result is to hamper the industry as a whole, and therefore to impoverish both the workers and the community. Collective bargaining conducted under a threat between two parties inspired by such beliefs is not likely to lead to good results. In so far as this mutual distrust rests upon real foundations, it can only be got rid of by dealing with its causes, a point to which we shall return later.

In the meanwhile it is important to recognise that, over a large field, divided control already exists. It should be the object of Liberal policy to turn this divided control, within its appropriate sphere, into an organised system of partnership in control. Just as, in foreign relations, we aim at

substituting frank discussion and co-operation in a League of Nations for secret diplomacy, ultimatums, and discussions under the threat of war, so, in the industrial field, the best results are likely to be obtained by open conference under peaceful conditions.

The path of development has already been indicated by the Whitley Councils and, still more clearly, by the system recently set up for determining labour problems on the Railways. It is wisdom to recognise and develop a healthy process of evolution. But we need to go much further than we have yet gone ; and in so far as the Whitley Councils have failed to achieve their ends, part of the cause lies in the fact that their functions have not been widely enough conceived. The object of any such system should be, not the mere avoidance of disputes, but the just determination of the conditions of work in the industry concerned. And it should consider not only the problems of the manual-workers, but also those of the brain-workers ; and should have regard to the needs not only of the producers but of the consumers.

These conditions would be satisfied if in every organised industry there were a standing Council including not only Trade Union representatives and spokesmen of the managerial and organising side of industry, but also directly appointed representatives of the brain-workers in the industry. Such a Council should have power to consider *minimum* wage-rates or salary-rates for each type of labour, whether of hand or brain, the hours of work and the problems of fatigue, the methods of workshop

organisation, and, in short, all the problems affecting the worker in his relation to his industry. The agreed decisions of these Councils should, after being reported to the Ministry of Labour and laid upon the table in Parliament, be made binding upon all concerns engaged in the industry, as minimum conditions ; leaving to each concern the power to make such special arrangements as it thought fit, so long as these minimum conditions were observed.

In order that these Councils might be enabled to carry on their discussions with adequate knowledge, it would be necessary that they should have before them certain general information as to the financial condition of the various concerns in the industry. They should know what was the average rate of interest earned by capital in the industry, what was the rate at which capital could be borrowed in the market for necessary expansions, and what share of the gross product had to be devoted to administrative and other expenses. They should have before them the fullest available information as to the prospects of the industry, the extent to which it depended on export, the state of the market both for raw materials and for the finished product, and the progress of new and improved methods in our own and other countries.

The institution of such a system would mean the creation of a real partnership in the determination of the conditions of the industry as a whole. In all matters affecting the conditions of labour there would practically be joint control instead of divided control. And it is very unlikely that, working on such a basis, bodies of reasonable men would fail to

arrive at satisfactory solutions. At the same time the workers would preserve the right to withhold their labour if they were dissatisfied with the results of these discussions and could not obtain a reconsideration of the Council's decisions. But before they did so it would be reasonable that a clear statement of the reasons for the decisions of the Council should be circulated to all the workers concerned. On the other hand individual concerns would preserve (subject to the general conditions imposed upon the whole industry) the right to work in their own way, and to carry on their own experiments.

The institution in every organised industry of Councils of this kind, enjoying large powers, would be a proper subject of legislation, which might have to be made gradually operative, because not all industries are ripe for such treatment; but the Councils would increase their range as they demonstrated their success. The creation of such a system would be wholly in accord with the Liberal view of the functions of the State in industry—that of defining who should perform a given kind of work, instead of trying to do it itself, and that of seeing that activities necessarily affecting the life and liberty of citizens are carried on in a just and healthy way.

Industrial Councils thus constituted could not but take into consideration the difficult and vital problem of unemployment, which is probably the key-problem of the whole industrial situation. Until men are adequately safeguarded against the miseries of unemployment and all that it involves, resentment against the whole industrial order will

continue to be deep and to be justified. For a civilisation which cannot so organise itself as to ensure that the honest man who wants to work shall be safe from humiliation and from starvation stands self-condemned.

When a man gives his strength to the service of an industry, he has a right to expect that, so long as he works honestly, he will be sure of a decent livelihood. If he is liable to be turned off at a week's notice, without any adequate provision for his future maintenance, for no fault of his own, because of some trade-fluctuation, or possibly even because the concern in which he is employed is badly managed, it is impossible for him to think of himself as a citizen of the industry ; impossible that he should not feel that he is being exploited without ruth, and that the owners of an industry in which he has no sense of partnership use him so long as they want him, and fling him aside when they don't. Under such circumstances he would be more than human if he did not often give grudging work.

In some trades, where there are periods of pressure and periods of slackness, there is normally an unemployed reserve of men, and the existence of such a reserve is held to be, and probably really is, as necessary for the conduct of the industry as the reserves of an army are necessary for the conduct of war. The army pays its reserves and keeps them in training. The industry pays them nothing. So long as this short-sighted inhumanity continues, it is not to be expected that there will be either zeal or confidence among the workers in industry. The solution of the unemployment problem lies at the

root of the whole problem of industrial reorganisation. And the only healthy solution of it will be one which will enable every man to feel that when he becomes a citizen of an industry he is safe against the miseries of unemployment, so long as he offers honest work.

Until recently the only provision for dealing with this evil was made by the workpeople themselves, by co-operative action through their Trade Unions. It is impossible to overvalue the work thus done by the Trade Unions. It deserved and won for them the loyalty of their members, and nothing ought to be done which would undermine this loyalty.

But the resources of the Trade Unions alone were wholly insufficient to meet the need; nor was it right that a burden which properly belonged partly to the industry as a whole and partly to the community should thus be thrown upon the workers themselves. It ought to fall primarily upon the product of the industry.

The Liberal Government of the pre-war period took up the problem, and tried to solve it on the lines of a system of State Insurance, with compulsory contributions from employers and employed. There is much to be said for such a system. It enables the trades in which unemployment is least prevalent to help those in which it is more common; and it recognises the responsibility of the State for ensuring the minimum conditions of welfare for its citizens. On the other hand it conceals or obscures the responsibility of each industry for the proper maintenance of its own citizens out of its own product, and removes any motive for so arranging

the work in the industry as to reduce unemployment to a minimum ; a good deal could often be done in this way, and would be done if the responsibility were clearly brought home.

A system of State Insurance, supplemented by other forms of State action, must continue to be a necessary element in the provision for dealing with unemployment, more especially in the less highly organised trades. But it is unwise to trust to State action alone, or mainly, for the solution of the problem. The primary responsibility should be thrown upon each industry, on the principle that, in normal conditions, every industry ought to maintain its own citizens out of its own product.

Plainly the best way of dealing with unemployment is to prevent it, so far as that is possible. In many industries much could be done, by the adjustment and distribution of work, to guard against periods of depression ; and if the conductors of each industry knew that in any case the main burden of maintaining unemployed men must fall upon themselves, they would have every motive for using all available means of averting unemployment. A Council representing the whole industry could often give useful help and guidance in this regard, if it worked harmoniously ; and the function of studying this problem as it was affected by the special conditions of the industry, and of considering how it could be averted or minimised, would be one of the most useful functions which such a Council could perform.

There are obvious difficulties in the way of carrying this principle into effect throughout the whole field

of industry. Some industries are more liable to seasonal fluctuations than others ; in some industries the *personnel* changes constantly, while in others it is relatively stable ; and an industry that is definitely in a state of progressive decay must obviously present special difficulties. But most of these difficulties are capable of being overcome, especially if frank co-operation is made possible between the organisers of the industry and its workpeople, as it would be under a system of Industrial Councils possessing adequate knowledge of the financial conditions and prospects of the industry as a whole.

These difficulties, indeed, point to the necessity of dealing with the problem on different lines in different industries, in a way which would not be possible under any purely State system. And nothing could be healthier than to thrust upon the organisers and the workpeople in such a trade as that of Building (which is peculiarly liable to seasonal fluctuations) the duty of working out, in partnership and with regard to all the conditions and prospects of the industry, the best way of dealing with the problem. If they set to work with good will, they could do it far better than any Government department—at any rate, so far as the industry could be treated as a distinct and independent entity, and so far as it was possible to disregard its relations with other industries.

In many industries it would be possible for an Industrial Council such as we have described to work out to-morrow a fair scale of unemployed pay, on the assumption that it was to be provided partly out of the ordinary Trade Union funds, but mainly

by means of a levy on all the firms in the industry proportionate to the number of their employees; the fund thus created by levy being built up especially during periods of good trade. The administration of any such system ought to be entrusted primarily to the Trade Unions, partly because they have the full confidence of their members, partly because they have efficient machinery available for the purpose, while it is to their interest (as their own funds would be involved) to guard against abuses. The Trade Union officials could certify that such and such men had been admitted to receipt of Union out-of-work pay; and on this certificate they could be empowered to draw an agreed proportion from the fund created by levy.

The schemes framed under such a system might, and indeed ought to, vary from one trade to another. Once they had been agreed upon by the Industrial Council they might be submitted to the Ministry of Labour, just as County Council schemes for educational work are now submitted to the Board of Education; they might also be laid upon the table in Parliament, so as to be open to criticism. But once they were endorsed they would become compulsory upon all concerns in the industry.

The advantages of this method of dealing with unemployment are many and great. It would definitely throw upon each industry the responsibility for making provision for the welfare of all its members, and thus enable these members to feel that they were fairly treated. It would encourage workers to do their best by freeing them from the fear that hard work on their part might involve

unemployment and ruin for their fellows. It would make it the obvious interest of the organisers of industry so to distribute their work as to reduce unemployment to a minimum. It would encourage co-operation in the common interest between the various factors in industry. It would establish a real measure of self-government for workers in an aspect of industrial life vitally important to themselves.

At the same time the system has drawbacks and limitations of such a kind as to make it certain that it could not by itself form a solution of the problem. It would be most easily applied in steadily prosperous industries, and in those which suffer least from seasonal fluctuations ; and it would not be fair that these more happily placed industries should be wholly exempted from the duty of helping to relieve the pressure upon the less fortunate : to allow them to withdraw wholly from any national organisation for dealing with unemployment might have disastrous results.

Perhaps the most outstanding illustration of this danger is to be found in the case of decaying industries, to which we have already incidentally referred. New forms of industry are always arising, and taking the place of older forms ; and this process is likely to go on in an increasing degree, as scientific invention progresses. If we are to maintain or increase our prosperity, we must not resist but encourage this process ; and this means that we must contemplate a frequent transfer of labour from one industry to another. One of the dangers of a system of provision against unemployment organised

entirely according to trades would be that it would place difficulties in the way of such transfers. The workers in a decaying industry would be tempted to remain in it too long, and the burden of meeting a growing charge for unemployment would accelerate the ruin of the industry, and thus intensify the general problem of unemployment. The difficulty of adjustment between one industry and another would be further increased by the fact that, under such a system, each industry would be tempted to restrict the number of workers admitted to it, lest they should become a burden upon the industry. In the days when Poor Law relief was administered separately by each parish, the parish authorities were loth to allow any newcomers to get a "settlement" within the parish, lest they should later become burdensome to the rates. We are accustomed to declaim against the iniquity of this long disused system, which involved a grave restriction of the liberty of poor men ; we must beware lest we reproduce it in a new form. There is a real danger that this result might follow from a system of unemployment provision based wholly upon industries. It might easily tend to an intensification of that movement towards a rigid industrial caste-system which forms one of the most perturbing features of to-day, and on which we shall have more to say later.

These difficulties are real and great, and ought not to be slurred over. They point to the necessity of a State organisation alongside of a trade organisation for dealing with unemployment. If men and women could be helped and trained to have a

second craft upon which they could fall back when the first failed them—and the experience of the war has shown that adequate craft-skill can be acquired far more rapidly than used to be supposed—it would often be possible at once to relieve the pressure of unemployment and to facilitate the rise of new industries, while saving men from the wound to their self-respect which comes from receiving, and the community from the burden of paying, wages for which no work is rendered. Much could be done in this way if periods of unemployment were used for the training of the unemployed in alternative occupations. But such a system could not fairly be introduced suddenly, as things stand to-day; for the workers in each industry have a right to be safeguarded against any sudden inrush of competitors from other trades. And, as we shall see later, it is not to be expected that the increasing exclusiveness of various trades will be seriously modified unless and until the causes which have given rise to it are cured.

The problem is not insoluble. But it demands the most careful study and inquiry; nor can a satisfactory system of transfer from one industry to another, or even from one occupation to another within the same industry, be seriously attempted until each industry has solved its own problem so far as it can be separately solved. The first necessity is that the responsibility of each industry for the welfare of its citizens should be clearly established and wrought out. That done, the question of the conditions under which transfer from one industry to another, or the practice of several occupations

by the same man, is desirable and can best be arranged, will present itself in a different aspect. Meanwhile a State-system of insurance ought to be kept in being concurrently with a trade-system ; the most earnest and systematic inquiry into the whole problem ought to be carried on both by the State and by individual industries through their Councils ; and just as each industry strives to organise its activities in such a way as to distribute work as evenly as possible, so the State ought to work out every possible means of distributing necessary public works and public purchases in such a way as to counteract the fluctuations of trade.

# X

## THE DETAILED CONTROL OF INDUSTRY AND THE DISTRIBUTION OF THE PRODUCT

THE methods suggested in the last section for bringing into operation a system of joint control or regulation of the conditions of work in whole industries would undoubtedly contribute very greatly to the solution of the industrial problem. But they would not be enough by themselves. We have still to consider how far a real partnership of the various factors in industry is possible in the management of individual concerns, working with a large degree of freedom and initiative under the general conditions laid down by the Industrial Councils.

And here we are brought at once face to face with the plain fact that it is impossible, except in quite minor matters, to consider control apart from the distribution of the product of industry. This is the case even in regard to the general regulation of industry dealt with in the last section : the regulation of wage-rates and the treatment of unemployment, which we defined as the principal business of Industrial Councils, necessarily and profoundly affect the distribution of the wealth created by the industry, and for that reason we found it necessary to lay it down that the Councils must have before

them a general knowledge of the financial condition of the industry as a whole.

But it is still more impossible to dissociate the twin questions in dealing with individual concerns which handle directly the products of industry and are primarily responsible for distributing as well as creating the profits that accrue. There is no getting away from the obvious fact that the business of every industrial concern is to create wealth, and to divide it out when created.

Now the primary and predominant part in the control of an industrial concern must necessarily belong to the organisers and initiators whose function it is to determine what forms of wealth shall be made, in what quantities, and for what markets; upon the determination of these points the whole organisation of the concern must necessarily depend. No concern can hope to prosper which does not secure the services of the right sort of men for these functions, and which does not invest them with a high degree of independent authority, so long as they show themselves competent.

But no concern which is not purely private and individual permits even the ablest of organisers to exercise an unchecked power. As things are, the organisers of every industry are subject to the control of the owners of the capital. It is true that in normal times the power exercised by the owners of capital does not amount to much. They receive an annual report; they nominally elect the Directors, but in ninety-nine cases out of a hundred they simply accept names put before them by the Board of Directors. But if things go badly wrong they

can interfere. And the mere fact that they have these powers ensures that the general policy of the concern will be carried on in accordance with their interests. This is the essence of the Capitalist system.

It is not without a certain justification ; and those who most dislike Capitalism ought to be most careful to appreciate this justification, because it explains why the Capitalist system has lasted so long. The owners of the capital exercise final control because, since they take the residual profits, it is to their interest that the concern should produce the maximum amount of wealth for which there is an effective demand, or, at all events, that it should produce the maximum amount of profit ; and although the production of the maximum product is not the same thing as the making of the maximum profit, yet in general and on the average production and profit go hand in hand. It is for this reason that the holders of preference shares, with a limited rate of interest, are commonly excluded from a share in this final control ; they do not seem to be concerned to secure the maximum production of wealth, so long as there is enough to pay their interest ; they are in the same position as the employees in the industry, who draw fixed wages or salaries.

Now the maximum production of exchangeable wealth is really to the interest of the workers as well as to that of the owners of capital. But unfortunately this is not obvious to the workers, as they have shown by restricting output. It is also, and in this case quite obviously, to the interest

of the community as a whole ; and that is why the community as a whole has so long tolerated and upheld the Capitalist system—because, as a rule, it tends to the maximum production of wealth, and therefore to the welfare of the community.

The system of exclusive capitalist control has many and great drawbacks ; we need not go over them again ; the greatest is that it is felt to be, and indeed is, unjust. But it has this one great justification, that it has tended to the maximum production of wealth, which is an indispensable condition of national welfare. And no system of control, however great its theoretical merits, will serve its purpose unless it has this merit of Capitalism of tending to the maximum production of wealth. Indeed, one of the main reasons for a departure from pure capitalist control is just that it is ceasing to bring about the maximum production of wealth, because of the growing sense of its injustice.

The claim of the brain- and hand-workers in industry to a share of control over the concerns in which they are employed rests upon wider grounds than their mere economic interests ; it rests upon grounds of citizenship. But it will not lead to satisfactory results, whatever mode of organisation may be adopted, unless it brings about a strengthening of the motives for the maximum production of wealth. If it has this result, the admission of the workers to an effective partnership in the control of industrial concerns will be beneficial to the community, and will therefore last and grow. If it has the opposite result, it will come to an end because it will be harmful to the community.

Some tell us that if and when the workers share in the control of industry, the sense of responsibility and the spirit of public service will be enough to ensure that they will do their best. It is, of course, important to strengthen these motives. But it is, as we have earlier suggested, sentimentalism to attempt to *substitute* the motive of service for the motive of personal advantage. The two motives have to be combined and reconciled if we are to get the best results from average men.

It appears, therefore, that the successful organisation of any system of partnership in control must depend upon the working out of some just method of profit-sharing which will enable all workers to feel that it is their interest, and also the community's interest, to bring about the maximum production of wealth, and not merely the interest of the owners of capital. That done, it would become natural and advantageous on every ground that the workers should have direct representation upon the directorate of the concern in which they were employed ; and their presence there would be of the utmost benefit to everybody concerned.

There have been, in recent years, many schemes of profit-sharing and co-partnership, some of which present features of great interest. They have not, as a rule, been successful, partly because they were mostly open to grave criticisms, partly because they generally did not carry with them any share in control, but mainly because they have been regarded with great suspicion by the workers. The reasons for this suspicion are of great significance and importance. First of all, it is widely believed

(in many cases not without reason) that the main object of such schemes is merely to increase output and therefore to swell the dividends of the owners of capital. Secondly it is feared that their purpose is to undermine the system of Trade Union regulations whose aim is to protect the workers and prevent unemployment. No system of profit-sharing is likely to win unqualified acceptance unless these grounds of suspicion are removed.

This means that a workable system of profit-sharing and of partnership in control will be conditional upon (1) a fair attempt to reduce within reasonable limits the share of the product of industry taken by capital, a share which is undoubtedly often excessive ; (2) a reasonable assurance that increased activity in production will not lead to an increase of unemployment ; and (3) a reasonable guarantee that profit-sharing will be accompanied by a share in control similar in kind to that enjoyed by the owners of capital.

The second of these conditions would be fairly met by an adequate treatment of the unemployment problem. But it suggests that profit-sharing schemes are not likely to be successful except in industries where a satisfactory mode of dealing with unemployment has been wrought out. The third condition must obviously depend upon the character of the profit-sharing scheme itself. But the first condition is perhaps the most vital ; we shall turn to it presently.

Meanwhile it is obvious that schemes of profit-sharing and co-partnership are still in so experimental a stage that they are not ripe for legisla-

tion; indeed, in any case, the basis and methods of such schemes must vary widely according to the varying conditions in different industries. But a Liberal State ought plainly to regard it as a duty to encourage and to study such experiments in every way possible; and to assist them by making available not only the fullest knowledge of all such schemes that are at work in this and other countries, but all honest and effective criticisms upon them.

But while it is impossible for the State, now, or perhaps ever, to lay down rules for profit-sharing and co-partnership, it is possible for it to assist the creation of conditions favourable to the growth of such a system, by means of provisions for ensuring a juster division of the product of industry, and in particular a reasonable limitation of the share of this product which may normally be taken by the owners of capital. The State is, according to Liberal ideas, fully entitled to do this, not only in virtue of its supreme function of ensuring justice as between all citizens, but in particular because all trading companies (and the greater part of industry is now carried on by trading companies) enjoy their privileges, and especially the privilege of limited liability, under the terms of the body of legislation known as the Companies Acts.

The first step towards a fair division of the product of industry is to know how it is actually distributed now. The accounts of trading companies, having in view only the profit-making interests of their shareholders, are usually presented in such a form as to show only the general balance of the company's concerns, and the amounts avail-

able for dividend. An amendment of the Companies Acts might readily provide that these accounts should clearly show how much of the gross income was spent on wages, on salaries, on commissions and other rewards for individual skill, on interest upon various forms of capital, on developments and improvements, on research, and on other purposes, such as the provision of amenities or educational facilities. Such a statement would be of very great value for many purposes. It would greatly facilitate the work of Industrial Councils. It would remove many misapprehensions. And it would not be unfair to any well-conducted enterprise.

When we pass to consider the possibility of a definite legal limitation of the possible return on capital, we are at once faced by the difficulty that in risky and experimental undertakings, where there is a likelihood of total loss, the capital required will not be forthcoming unless the possibility of very large profits is offered as an offset to the risk of loss ; and it is obvious that it would be disastrous to discourage such enterprises, the undertaking of which has been the chief virtue of the Capitalist system. It is in regard to such enterprises that, in the public interest, the Capitalist system ought to be allowed to survive with least alteration. Indeed it may be said in general terms that the justification for a limitation of profits increases in proportion as the capitalist's risk of total loss decreases. Where there is absolute security, as in State-guaranteed stocks, the rate of interest is not only limited, but is small. Where the risk of loss is slight, as in the preference shares of well-established concerns, capital

can be obtained at a fixed but higher rate ; but in such cases the security against loss is obtained, and the limitation of the rate of interest is made possible, by the fact that there are ordinary shares which rank last for dividend, but in return have an unlimited claim to share in the residual profits ; and it is on these conditions that the capital required is obtained.

When all this is said, however, it remains true that in many well-established concerns, where the risk of loss is comparatively slight, capital frequently obtains a return out of all proportion either to the risk its owners run, or to the value of the service they render. Some famous instances of extremely successful enterprises in which this is so will at once occur to the reader. And in all such cases it is plainly just that there should be a reasonable limitation on the return capable of being earned by capital.

The difficulty might be overcome if *bona fide* new enterprises (among which reconstructed companies should not count) were allowed a period of years without limitation of profits in which to establish themselves. Thereafter their ordinary shareholders might be limited to a defined rate of interest until a reserve fund had been built up equivalent in amount to the total capital. The reserve should be regarded as the property of the concern as a whole—not of the shareholders. It might, in bad years, be drawn upon for the purpose of meeting the liabilities of the concern, including the payment of the defined rate of interest to the ordinary shareholders ; but the shareholders should be forbidden

to divide the reserve among themselves. After the reserve had been formed, all further profits beyond the defined rate of interest might be divided between the State, the workers in the concern, and the ordinary shareholders, in such proportions as might be determined by the Act.

It would be a necessary corollary of these provisions that there should be an absolute prohibition of the creation of fictitious capital: the capital credited to a shareholder in any concern must correspond to the actual contribution which he has made to the resources of the concern in money or kind. It must be made impossible, for example, for a company which has been paying 20 per cent. on the original value of its shares during the period of unrestricted profit-making to double the nominal value of the shares by a paper transaction; for this would enable the shareholders to draw double the minimum rate of interest on the real capital contributed by them, after the company passed under the provisions for limitation of interest.

On some such basis it could be secured that the share of the product of industry taken by the owners of capital should be limited to something reasonably proportionate to the risk taken and the service rendered by them; while at the same time the community would share in exceptional prosperity in such a manner as not to hamper the industry; and the workers of the industry would be also assured of some share in the results of their labours over and above their wages, even apart from the adoption of any formal profit-sharing or co-partnership scheme. The enactment of provisions of this order,

which would apply to the greater part of the established concerns conducting industry, would go far to destroy the conviction, now held by many workers, that any extra effort expended by them will only increase the profits of the owners of capital. Taken in conjunction with a sound method of dealing with unemployment, it would help to remove the difficulties which stand in the way of schemes of profit-sharing and co-partnership. And it would provide at any rate a partial substitute, of a permanent and just character, for the Excess Profits Duty.

In short, it would open the way to an effective system of partnership between the various factors in industry in the management of individual concerns corresponding to that outlined in the last section for the general control of industries as a whole.

# XI

## TRUSTS AND CARTELS

We have hitherto considered the organisation of industry on the assumption that it is and will be carried on mainly by a large number of individual concerns more or less competing with one another; and we have endeavoured to show how the principle of the partnership of the various factors in industry could be applied first in the definition of the general lines to be followed by all concerns engaged in a particular industry, and secondly in the management of individual concerns. But we have still to consider what attitude would be suggested by the ideas of Liberalism towards a tendency which has become very marked in modern industry—the tendency to concentrate in a very few hands the management of the whole or the greater part of the concerns engaged in a particular kind of work.

This tendency is so widespread that it obviously represents a natural movement of economic forces, which may be evil or good or of mixed character. It is the instinct of Liberalism, in dealing with any such movement, to give it free play so far as it seems to lead to no evil results, but to provide adequate safeguards against any evils that may threaten to result from it.

The movement takes two different forms. On the

one hand an industry may be brought under the control of a Trust, either by the incorporation of all the individual concerns in a single vast company or by the acquisition, by a central company, of a controlling interest in all the rest which enables it to dictate their policy and methods ; on the other hand, an industry may be organised under a Cartel, by an agreement among the various concerns engaged in it, whereby, while retaining their individual freedom and variety of method, they combine for many common purposes, such as the fixing of prices, the organisation of the supply and fair distribution of raw materials, or the development of the export market.

It is plain that both of these methods tend to the restriction of competition. The Trust, if it obtains a complete control over the whole industry (which it has never yet quite succeeded in doing even in America), puts an end to competition altogether ; the Cartel very considerably reduces it, though it does not do away with it.

Both Trusts and Cartels are obviously open to grave dangers. When they get the market at their mercy, they are tempted to raise prices in order to swell their own profits at the expense of the consumer. In this respect they are open to precisely the same objection as the Syndicalist scheme of industrial organisation. The fact that on the Syndicalist scheme the higher prices would go to enrich the workers, while in the Trust they might be spent partly in increased wages but mainly in increased dividends, makes no difference so far as the consumer is concerned—in either case he is at

the mercy of a monopoly ; the only difference being that under the Syndicalist scheme he would have no remedy, while he can use the powers of the State against the Trust or the Cartel.

A second danger of the Trust and (in a less degree) of the Cartel is that they may tend to discourage the working out of new ideas ; though it is only fair to note that some Trusts have been distinguished by the assiduity with which they have carried on scientific research. The Trust is always tempted to crush new enterprises by unfairly underselling them. Even if it buys them out, it may think it most profitable to suppress the experiments they were making. The Cartel is in some degree open to the same temptation, though it may admit a new enterprise to its partnership, and its individual concerns have every motive for trying experiments on their own account. But to a greater or lesser degree Cartels, and still more Trusts, are open to the same criticism as the Socialist system of industrial organisation, that they are not favourable to individual experiment, though the shrewd business men who control them are more likely to give a chance to a new idea than the Government official who has little to gain if the idea succeeds and much to lose if it fails.

On the other hand the Trust and the Cartel undoubtedly present advantages. They lead to greater economy and efficiency in organisation. It might seem that this would especially apply to the Trust. But experience seems to show that it is not so ; in the great American Trusts, after they have reached a certain magnitude, there is, instead

of increased economy, a progressive increase in the cost of administration relatively to the volume of the business. In both cases, however, very great economies can obviously be made in the purchase and distribution of the raw materials and in the marketing of the product—economies of just the same kind as farmers, for example, can make by intelligent co-operation. And these advantages are especially great in export trade. There are also some great undertakings, like the laying of an oil pipe-line, which no body less powerful than a Trust could probably carry through.

Moreover there is one great advantage attending the more unified organisation of an industry under a Trust or a Cartel which is of especial importance in relation to the problems discussed in the foregoing pages. The systematic treatment of the conditions of labour under an Industrial Council is likely to be considerably facilitated; and, above all, the proper handling of the unemployment problem is made easier, because a Cartel or a Trust, when it knows that it must meet the charge of unemployment pay, can often do a great deal to distribute work in such a way as to reduce unemployment to a minimum.

For these reasons Liberalism, which believes in giving free play to all sorts of experiments so long as they are not injurious, is not justified in contenting itself with the mere denunciation of Trusts or Cartels, or in endeavouring to prevent their creation, but ought to recognise that they represent a stage in the development of productive industry which may very well lead, in some trades, to real

public advantage, provided that the obvious dangers which attend them can be removed. So safeguarded, the Cartel, at any rate, if not the Trust, might in some respects prove to be the means, in the industries to which it is appropriate, of attaining a national organisation of industry which will be free from the defects of a rigid Socialist system, and which will allow room for the beneficent working of individual enterprise.

There is one Liberal principle which very powerfully tends to prevent the worst evils of a system of Trusts or Cartels, and which forms the principal explanation of the fact that these modes of industrial organisation have been less powerful in Britain than in Germany and America, and less mischievous when they have established themselves. This is the principle of Free Trade, which prevents any Trust or Cartel not possessing a natural monopoly from obtaining an absolute monopoly of the home market, by freely admitting competing goods from other countries. Free Trade is not enough by itself to form a complete safeguard, because it cannot prevent the formation of international Trusts or Cartels, or of international agreements between national Trusts or Cartels. But it does unquestionably make these operations more difficult. It is only in Protectionist countries that the Trust and the Cartel have reached their most dangerous developments.

Another considerable safeguard against the evils of the Trust or Cartel would be found in a reasonable scheme for the limitation of the share of trading profits which may be taken by capital, such as we

have earlier suggested; seeing that the principal motive of Trusts in imposing high prices is to keep up profits for the owners of the capital invested in them. And the suggestion already made that while the dividends of established companies should be limited, new enterprises should be allowed a period free from limitation, would form a further safeguard, since it would attract adventurous capital into these enterprises, which would often be competitive with the Trusts or Cartels. It would thus not only form a check on the raising of prices by giving favourable conditions to new enterprises, it would also form a safeguard against the second danger of the Trust, that of being hostile to new ideas.

But these proposals alone are insufficient to deal with the possible evils of Trusts or Cartels. Specific legislation is required, which should not be directed against the formation of Trusts as such, and still less against the formation of Cartels for co-operation in buying and selling so far as their aim is greater economy and efficiency, but which should have for its purpose the safeguarding of the community against the abuse of the power such organisations may wield. It is a power which may be potent both for good and for ill, and the aim of legislation should be not to interfere with its potency for good, but to guard against its potency for ill, by prohibiting unfair competition which discourages enterprise, and the artificial enhancement of prices, which impoverishes the community.

As America has suffered most from the evils of Trusts because she has encouraged their rise by a system of high protection, she has had to study and

experiment in the methods of preventing these evils on a greater scale than any other country; and there is a good deal to be learned from American anti-Trust legislation. The chief aim of this legislation has been to guard against unfair competition; and unfair competition is held to mean the use of any method which excludes the rivals of the Trust from equal access to the consumer, such as the granting of rebates to customers dealing exclusively with the Trust, or the organisation of boycotts, or the reduction of selling prices in defined markets for the purpose of ruining a competitor. These methods have never reached so high a pitch in this country as in America—thanks mainly to the operation of Free Trade. But they constitute a danger; and the American example shows that they can be dealt with by legislation.

## XII

### THE FREEDOM OF THE WORKER

THE object of all industrial and social policy is, in the eyes of Liberals, not merely to produce wealth, but to make a nation of free men, free to do their best for themselves and the community as a whole, free to make the most of their individual powers whether in the hours of their work or in the hours of their leisure.

In our society as it now is this freedom does not exist in any sufficient degree. Men are not free to do their best for themselves, or to serve the community in the production of wealth with all their strength. They are restrained not only by the defects of the existing economic system, but also (and probably in a higher degree) by restrictions which the workers have themselves devised with the object of remedying the defects of the economic order as they understand them, and which they impose upon their fellows with all the disciplinary powers that their Unions can wield.

In many trades a man is not free to work his hardest even during the defined hours of labour ; it is his duty not to do more than the custom of the trade ordains, and this amount tends to diminish. He is forbidden, or he refuses, in many trades, to

accept payment in proportion to the amount of work he does, precisely because this would tempt him to exceed the prescribed output. The chief reason for these restrictions is in itself fine and altruistic. The good workman must work down to the level of the poorer workman in order that the poorer workman may not be penalised and also in order that the amount of employment available may be spread round the greatest number of workers. Unhappily this is a very false calculation. When a man takes two days to do what he could do in one, the product is not only less abundant, but dearer; and because it is dearer less of it is bought. Moreover the goods produced under such a system cannot compete with goods produced in other countries where these rules do not hold. Export markets are therefore lost; and unemployment is increased. The community is deprived of that increase in the amount of wealth available for distribution which is the first pre-requisite of a better order of things. There can be no idea more demoralising than the idea that it is a man's duty *not* to do his best; no organisation more ruinous than one which aims at preventing a man from doing his best; nothing more destructive of liberty in any fine sense of the term.

Nor are these the only restrictions on the freedom of the worker which the present order imposes. A man is not free to transfer his work from one industry to another, even if he has ability to take up the new work. When the whole country is short of houses, and thousands of unemployed men are eager to put their hands to the work, they are not permitted to render this indispensable service, or to earn a living for

themselves, because the Builders' Unions fear that any large increase of the number of workers in their trade might mean unemployment for themselves at some later time.

Finally men are not free to do any work, even the simplest, that is not officially recognised as belonging to their craft. This restriction is, of course, often an impediment to production. But far more serious are its effects upon the men themselves. It is often said that machinery has mechanised labour and reduced it to deadly uniformity, that it has starved individuality by depriving men of variety of occupation. These restrictions tend in precisely the same direction ; they tend to weaken the readiness and adaptability of the men to whom they apply ; to reduce them to machines.

Taken together this series of restrictions almost amounts to the establishment of an industrial caste system of a very elaborate kind. And there is nothing more narrowing, more deadening, more destructive of liberty than a rigid system of caste. While in America men move freely and easily from one occupation to another, and enrich their experience and individuality by doing so, saving themselves from being the slaves of a changeless routine, in England we are drifting rapidly into a system like that which has frozen the peoples of India into stagnation ; and it is coming about that a man is fixed for life into the occupation upon which he enters in his boyhood.

How are our people to be saved from this destruction of their natural liberties ? Not by any Acts of Parliament or other devices of authority ; for these

restraints upon liberty have been developed by the people themselves, as protective devices against dangers which they genuinely feared, and had reason to fear. They are in themselves so unnatural and so obviously deleterious that reasonable men would never adopt them unless under the impulsion of very powerful motives; if any such restrictions were imposed by external authority, even for the best of reasons, they would be resisted with passion. They can only last while the motives which have led to their establishment remain strong. And the only way to get rid of them is to get rid of the causes which have led to them.

These causes are two. The first is the deep-rooted belief of the worker that the whole industrial process exists for the purpose of making profits for the employer, or at all events that it is turned to that sole end. For this purpose, he believes, labour is quite ruthlessly exploited; and therefore he holds that his first duty to himself and his fellows is to organise for resistance, and to prevent the employer getting more than can be helped. It is all very well to say that this is a shallow doctrinaire view of the purpose and working of the industrial process. The unfortunate thing is that there is a great deal in the existing order which seems to justify this view.

The second cause is the dread of unemployment, and the determination of the worker to stand loyally by his fellows in reducing the danger of unemployment to a minimum even at the cost of sacrificing chances of making money for himself. No one can fail to appreciate the generosity of this

attitude, even if he feels that the methods adopted to remedy the evil tend to make it worse.

There is no chance of getting rid of the restrictions not merely upon output but upon the liberty and individuality of thousands of good men, unless we can get rid of the grounds of the beliefs which have led to their establishment.

In order to do this we must (1) find a real remedy for unemployment, of such a kind as to make the workman feel that when work is slack he will be safeguarded against the loss of his livelihood and against the bitterness of being merely turned adrift. We must (2) substitute co-operation for conflict in the determination of the conditions of labour. We must (3) ensure that each of the principal factors in industry has a share both in the control of the industry and in the distribution of the product appropriate to the part it plays in production. We must (4) in particular ensure that the owners of capital shall not be enabled to act as the owners of an industry or to arrogate to themselves all its residual product. If we can do these things, or set on foot processes of development which can demonstrably be made, with good will, to lead to these results, the fears and suspicions, often fully justified, which have led to the establishment of restraints upon liberty will be gradually conjured away ; and as they dissipate, the natural love of Englishmen for freedom will bring about the abandonment of these restraints.

But it is for the workers themselves to regain the freedom which they have voluntarily renounced ; it is for the community to insist and to secure that con-

ditions shall be brought into being which will make them feel that the renunciation of their freedom is no longer needed. All the preceding pages have been mainly devoted to an attempt to show not only how greater liberty may be attained, but how the conditions may be created which will help men to realise, whether they be employers or workmen, what Liberty means ; not only what are its rights, but what are its duties.

## XIII

### LIBERALISM AND NATIONALISATION

In the foregoing sections we have been primarily concerned to show how the principle of an organised partnership of the various factors in industry could be applied in the working of those industrial concerns which are privately organised, which compete with one another, and which rely upon individual energy and skill in management and in the working-out of new processes. We have throughout assumed that this will continue to be the normal method of carrying on the greater part of the nation's industrial activity. For, as we have repeatedly insisted, Liberalism holds that in general the best results can be obtained by giving the freest vent to private enterprise, subject only to such restrictions as may be necessary to secure justice and freedom for everyone engaged in industry. And for this reason, even in working out the principle of partnership, we have contemplated an infinite variety of method and experiment, in order that, as conditions change, each form of activity may find the mode of organisation best fitted for it.

But we have also repeatedly recognised that several other forms of industrial organisation may exist alongside the privately organised firm or

trading company, notably organisations controlled by and in the interests of the consumers, like the co-operative societies, and public services owned and controlled by the public, whether on the municipal or the national scale. It is needless to discuss these alternative forms in detail: though it should be noted that all of them ought gradually to be brought under the system of general regulation through Industrial Councils described in Section IX. It is, however, necessary to consider with closer attention the form of industrial organisation known as "Nationalisation," that is to say, the ownership and unified control of a whole industry by or on behalf of the community as a whole.

Herein lies the main difference between Liberalism and Socialism. Socialism asserts and Liberalism denies that this is the only morally right form of industrial organisation, and that it is economically or socially the most advantageous in the majority of cases. The Liberal holds that no moral question is involved, and that the question should not be discussed under the terms of abstract doctrinaire theories, but as a problem of practical efficiency and advisability. If it can be demonstrated with reasonable certainty that a particular industry needs this form of organisation and will thrive best under it, without detriment to the interests of the community as a whole, there is nothing in the ideas of Liberalism which would dictate opposition. But the case must be made good in each instance.

Assuming, however, that a particular industry is to be brought under national ownership and unified

control, the principles of Liberalism, as we have defined them, would dictate certain provisos as to the methods in which the industry is to be managed.

In the first place, the responsibility for direct management must not be thrust upon the ordinary machinery of government, the Cabinet and Parliament. One main reason for this proviso we have already more than once laid down: the State must be left free to perform its primary function of safeguarding the rights and liberties of all citizens against abuses of power. We need not dwell further upon this point.

But there is another and more practical reason for making this proviso. Our system of government is—and, indeed, any system of government suitable for general national purposes must be—extremely ill-adapted for the performance of such functions as the management of a great industry. Our system of government, which is in many ways admirably designed for the conduct of national affairs, places the control of these affairs in the hands of a Cabinet whose members are jointly responsible to, and subject to the criticism of, Parliament; and these Ministers work through an elaborately graded Civil Service or Bureaucracy. All the three elements in this system—Parliament, Cabinet, and Bureaucracy—while well fitted for political work are extremely ill-fitted for industrial work.

A general representative body such as Parliament, whose members are elected on the ground of their opinions on questions of home and foreign policy, may very well be able to say what is the mind of the nation on broad questions of industrial

policy, such as the desirability or otherwise of nationalising the coal-mines; but it is wholly unfitted to discuss with knowledge or to control with wisdom the practical daily working of a great industry.

There could be no worse head for a great industrial concern than a Minister who is selected on the ground of his political services, and who is at any moment liable to be turned out of office because (for example) Parliament disapproves of the Irish policy of the Government of which he is a member. Yet this must happen because of the doctrine of the joint responsibility of the whole Cabinet for the policy of government; and the principle of joint responsibility is of the very highest importance and value in the political sphere, and must not be impaired. Even as things are, it is absurd enough that an efficient Postmaster-General should be dismissed on a question of foreign policy or other totally irrelevant subject. These absurdities are due to the fact that we have already thrust upon Parliament and the Cabinet functions which are not appropriate to them. That foolish and destructive process must not be carried further. The whole system of government would be turned to derision if the heads of a series of great industries were placed in this position, or were selected on political grounds.

Finally the traditions of the public service, which produce admirable results in the political sphere, do not cultivate the kinds of administrative faculty which are needed in a great industrial concern. Security of tenure, promotion by seniority, a strict

observance of service rules, a meticulous care about halfpennies in the handling of public money, the habit of referring questions from subordinates to superiors through a long chain of precise and methodical officers, have helped to produce an admirably judicial, cautious, exact and impartial spirit which is the glory of our public service. But these qualities are different from, and in practice incompatible with, the vigour and initiative, the readiness to assume responsibility and to make swift decisions, which are needed for the successful conduct of a great industry.

For these reasons Liberalism cannot assent to the placing of any great industry under the direct control of the ordinary machinery of national government. But equally it cannot consent to one of the possible alternatives: the placing of such an industry under the exclusive or predominant control of the producers in the industry, whether capital, management, labour, or any two or more of them in combination. For to do this would be to create a vast monopoly against which consumers and the community would be defenceless. An industrial enterprise may legitimately be controlled by the producers, or by any group of them, when it is only one among many competing concerns. But when it is organised on a monopoly basis it is essential that the controlling voice should rest with spokesmen of the community and of the consumers. This need not, of course, exclude the producers from a share in control; and in any event the interests of the producers need to be safeguarded by means of an Industrial Council or other similar

device. But it does definitely exclude the form of control contemplated by the Syndicalists and by the Guild Socialists—a form of control which was evidently in the minds of some of the advocates of nationalisation of the mines. Syndicalism as well as Bureaucracy must be avoided in any scheme of national control.

There remains, however, a method of organisation for nationalised industries which is free from all these dangers. It has already been successfully employed in democratic Australia. Parliament, having decided that an industry must be brought under national ownership and unified control, can set up a special Commission or Board for the purpose, leave it very free to do its work, and hold it responsible for the results. Parliament can define the general principles on which the industry is to be organised, the number and powers of the Board, its relation to subordinate organisations, the modes in which its members are to be appointed, and the length of time for which they are to hold office.

Under such a system Parliament would naturally have laid before it regular reports on the progress of the industry, and it would have the power of requiring the removal of any or all of the members of the Board in case of serious misconduct. But the Board would be responsible ; it would not be liable to have its work interfered with by snatch votes, or by the decisions of a vote-hunting Cabinet. It would not be a part of Government, but a distinct body, solely concerned to run the industry as efficiently as possible ; its officers would not be under the ordinary rules of the Civil Service, but

could be appointed and dismissed in the manner found most conducive to efficiency. Parliament and Government would stand outside, free to criticise the Board's proceedings, without feeling that they were endangering the existence of the Ministry ; free also to protect consumers on the one hand, workpeople on the other, against any abuse of the powers of the Board.

An industry thus organised would not work primarily for profit ; any profits which it might realise would be dealt with as Parliament might determine. It would of course be charged with the payment of interest on the capital invested in it at a fixed rate. Unified control on such a plan might lead to real economies, as well as to other advantages ; though the experience of the big American Trusts shows that when an industrial concern grows beyond a certain magnitude its administrative expenses increase at a disproportionately rapid rate ; and it is probable that the loss of the stimulus due to rivalry would in many cases at least balance the superior efficiency obtained by unified control.

To meet this difficulty, to avoid the deadening influence of a highly centralised control, and at the same time to secure, so far as possible, the variety of method and the freedom for experiment which Liberalism values, a further proviso may be suggested. This is, that in any nationalised industry the greatest practicable amount of local decentralisation should be encouraged ; and the local administrative bodies set up for such purposes—whether specially created or attached to municipal authorities

—should be allowed such a degree of freedom of action as will encourage them to make distinctive experiments. This is the method we have adopted in the administration of the national system of education. It is equally capable of being applied in the sphere of industry, and is, indeed, already suggested for the administration of the national service of electric power.

Under such conditions, a nationalised industry might be worked with a reasonable degree of efficiency and freedom. Such a system would avoid the Scylla of bureaucracy and ill-informed parliamentary meddling on the one hand, and the Charybdis of a producers' monopoly on the other. It is only on some such basis that the believer in Liberal ideas should be prepared to advocate national ownership and control in any industry. And there is a great deal to be said in favour of transferring to an organisation of this type the management of the postal and telephone services, which have not profited by parliamentary and ministerial control.

Assuming that any nationalised industry would be conducted in this sort of way, and that the constitution of the controlling Board would in each case be so defined as to meet the special needs of the industry concerned, we have next to ask what industries, if any, would be best conducted thus, and on what principles a distinction should be drawn between one industry and another.

There is a strong *a priori* ground for national ownership and unified control in the case of any industry (*a*) which is a monopoly, (*b*) the conduct

of which directly and immediately affects all citizens, (*c*) which, for the foregoing reasons, is necessarily in any case brought to a large extent under the control of Government, (*d*) in which unified control would demonstrably lead to definite improvements or economies, and (*e*) which is so well developed that its success does not primarily depend upon the constant expenditure of individual ingenuity and inventiveness, or upon the working-out of new processes.

These are fairly clear criteria ; and in the case of any industry which satisfies all, or nearly all, these conditions it may fairly be said that the presumption ought to be in favour of national ownership and unified control.

There are certain industries of very great importance which seem to satisfy all these criteria ; and in these cases the Liberal attitude would be that, while each case should be carefully investigated on its own merits, the presumption is in favour of a scheme of national ownership, subject to the provisos already laid down. The most outstanding, though not the only, industries in this category are the railways and the coal-mines.

The railway system is, in the first place, essentially a monopoly. It is not subject to foreign competition ; and although the existence of a number of distinct privately-owned companies has been defended on the ground that their competition ensured good service, the competition is in most parts of the country unreal, and the accepted devices for improving the service involve the ending of such competition as exists. In the second place the

working of the railway system affects the life of every citizen every day. In the third place, for these very reasons the railways have always, since the date of their foundation, been subject to a greater degree of State regulation and control than any other industry. During the war they were in effect brought under direct Government control; and now that the war is over it is found impossible to allow them to regain even that modest degree of independence which they used to enjoy; an elaborate and costly Ministry of Transport having been set up primarily for the purpose of controlling them. In the fourth place, it is unquestionable that a great deal of waste results from the multitude of administrative offices, and that a more efficient service could be provided if the system were treated as a single whole. Finally, railway work, though it is highly skilled and demands great administrative ability, is past the experimental stage and is well standardised; though it is probable that a new experimental period lies before us. The reasons in favour of a unified national railway system are thus very strong indeed.

The arguments in favour of national ownership of the coal industry stand upon a rather different footing. It cannot strictly be said that the industry has a necessary monopoly even of the home-market. But the coal industry is the very foundation of all the rest. British prosperity rests mainly upon coal, and when British coal ceases to supply the whole needs of the home-market, not to speak of the export-market, one of the main pillars of our prosperity will have been destroyed. But our

coal-supplies are a rapidly wasting asset, and it is supremely important that they should not be wastefully used. In this industry, because of its peculiar conditions, the existence of a number of distinct coal-getting companies working for profit is necessarily wasteful, and this for a reason which does not apply in other industries. A private company cannot afford to work a mine when it ceases to be profitable, even though it is far from being worked out; and mines once abandoned can seldom be reopened. But it is to the national interest that they should be worked as long as possible. There are mines working to-day which would have been abandoned but for the fact that under the scheme of control set up during the war the richer mines are made to pay for the poorer mines. For these reasons it has been found necessary to keep in being the system of control initiated during the war; and though this system of control, being a hybrid between private and public management, is by common consent exasperating, complicated, and unsatisfactory, it cannot be dispensed with. There can be no return to the purely private system which existed before the war. Some kind of national system has to be set up; and under these circumstances it may reasonably be urged that it is best to make a clean departure, and to get rid of the existing confusion and overlapping.

The reasons for nationalisation of the coal industry are thus on the surface strong. And these reasons are enforced by two others, not directly arising from the working of the industry itself. One is that it has already been decided that the

supply of electric power must be organised on a national basis; and the supply of electric power depends upon coal. The other is that a Royal Commission has already reported, by a majority, in favour of national ownership, and that the majority of the workers in the mines have clearly made up their minds, whether rightly or wrongly, that they will not work zealously under any other system. These reasons should not be decisive unless the arguments drawn from the actual working of the industry were very cogent; but they rightly have great weight as reinforcements of these arguments.

The opposition to national ownership is maintained by arguments to which all Liberals are bound to attach great weight; one is that nationalisation must involve either the inefficiency of parliamentary and bureaucratic management, or the tyranny of a producers' monopoly. These are the twin dangers of nationalisation in any industry against which Liberalism must always be on guard. But we have already seen that it is possible to devise a system of management which avoids both of these dangers, and that they should, therefore, not be allowed to stand in the way if the reasons in favour of national ownership and unified control are convincing.

The second main argument rests on a stronger ground. It is urged that, just as the development of a new process or a new idea in industry which would be apt to be coldly regarded by a public department administering public funds is given a chance when the owner of capital is encouraged to take the risk of loss in the hope of making large profits, so the opening of new mines and the intro-

duction of new methods are due to the courage of the capitalist in taking the risk of total loss. So far as concerns the introduction of new processes, there is force in this contention. But so far as concerns the opening-up of new mines, the argument surely possesses no validity. The opening-up of new pits, and the facing of the risk that a pit may be sunk in the wrong place, is a matter of daily necessity, almost of routine, in the coal industry ; the development of new ideas in industry is not in the same way a matter of daily necessity for the continuance of the industry. Many industrial concerns get along very well without themselves trying new processes : they can adopt those that have been proved successful. But mining companies *must* open new pits ; they can't wait to adopt those that have been proved successful. Indeed, the risk that attends the opening of new pits, just because it is so unavoidable, is a risk that should be distributed over the whole industry.

A third argument, of a more practical kind, is based upon the fact that many mines are worked in close connexion with other industries, such as steel-works, and are owned by the concerns to which these works belong. It would often be both difficult and disadvantageous to withdraw these mines from their present management and place them under a distinct control. But this difficulty could readily be met if the Board which was placed in control of the nationalised mines were empowered to lease particular mines, subject to the condition that they should be worked under similar rules to those adopted by the Board.

The reasons for national ownership and control of the coal-mines seem therefore to be almost as strong, though on different grounds, as those for national ownership and control of the railways. And on its own principles Liberalism would therefore be led to assume that the presumption is in favour of a national system in both of these cases, subject always to the provisos that the management is neither brought under direct ministerial and parliamentary control, nor turned into a producers' monopoly, but that in each case a separate organisation is set up, suitable to the needs of each industry. In arriving at this conclusion Liberalism does not in the least depart from its belief in variety of industrial methods, or from its conviction that over the greater part of the field of industry private enterprise is essential for the adequate development of national wealth.

But this conclusion is still a theoretical one ; and before the question is brought to a practical issue, it is necessary to examine with care the financial aspects of the problem, and to determine whether from this point of view the acquisition of these great industries will be advantageous to the community. We need not, of course, be deterred by the alleged difficulty of raising the capital required to buy out the present owners of railways and coal-mines : they would simply be given national scrip in return for their existing scrip, on a basis to be determined. The sole problem is to determine what this basis should be. Many people hold that the railways are a rapidly depreciating asset, because of the growing competition of road-borne transport.

Many hold that the coal-mines are also a depreciating asset, not only because of the approaching exhaustion of our coal-supplies, but still more because the very high price of British coal must necessarily lead to the development of other sources of coal-supply, and alternative forms of power. If this view is sound, and if it becomes prevalent, it will presently become impossible for the privately-owned railways and coal-mines to obtain the capital necessary for working them ; and since the time is far distant when we can dispense with either, the State will have to step in to assist them. These considerations are important, and ought to be carefully weighed, and any scheme for nationalising railways or coal-mines ought to pay due regard to them. But they do not invalidate the considerations already discussed.

It is needless to pursue the argument into other fields, or to discuss the cases of canals, or forests, or banking, or insurance, or the liquor-traffic. Each must be considered on its own merits ; and enough has been said to indicate the point of view from which Liberalism is likely to approach the discussion of projects of national ownership and unified control.

But there is one fundamental question of this order which has still to be considered : the question of the land, which stands by itself, though its bearings upon industrial policy are intimate and obvious.

## XIV

### LIBERALISM AND THE LAND

No tenable system of national economic policy can be put forward which does not clearly define the principles upon which the use of and access to land should be determined ; for land is the foundation of all productive activity.

The system of unrestricted private ownership has placed in the hands of a small class of landowners the power to dictate the conditions upon which land may be used, and to hold to ransom communities which, since they cannot thrive or prosper without access to it, must submit to whatever terms the owners of the land impose ; and the way in which this system has actually worked is very largely responsible for the cramped and unhealthy condition of our towns. Moreover the development of all mining industries, of forestry, and above all of agriculture, which is still, even in England, the greatest of national industries, is made to depend upon the good will, intelligence, and resources of owners of land. In a less degree, but still really, the development of convenient communications and the proper employment of sources of water-supply and water-power are dependent upon the same uncertain factors. An unrestricted private control

over this greatest and most fundamental of all natural monopolies, this governing factor in the conduct of all activities, thus places in the hands of those who wield it a degree of irresponsible power over the lives and fortunes of their fellows which no free people can be expected to tolerate.

What is the attitude of Liberalism on this fundamental issue ? Historically the outstanding feature in modern Liberalism has been its struggle against the power of a landowning oligarchy, and against the theory (which once dominated our national life) that " those who own the land must rule the land." The monopoly of political power once enjoyed by the landowning class has been destroyed by Liberalism ; the economic ascendancy upon which this political power rested has been greatly weakened. But it still constitutes a serious restraint upon the development of a genuinely free community and upon the expansion of its productive activity.

No Liberal will deny that it is the unquestionable and inalienable right of the community as a whole to determine how the land is to be used. In pure theory there is no sphere in which the argument for public ownership is so strong. Unlike capital, land is not created by individual effort and thrift. In its " prairie " condition it is " the gift of God to man." Even its improved value is only in part due to the efforts or expenditure of the owner and his predecessors ; it is due far more largely to the activity of the community as a whole, in creating communications, opening markets, and bringing population, whose presence is necessary to give the land its value. Moreover it is obvious that if all land were

in public ownership the difficulties in the way of dealing with the growth of towns, the planting of forests, the organisation of water-supply, the development of communications, would be much more easily dealt with than is the case when every patch of land needed for these purposes has to be acquired after tedious negotiations with many owners, and often at an unreasonable price.

Should Liberalism, then, place the public ownership of all land among the objects of its policy, as one of the foundations of a better economic order? As in every other similar case, the question must be dealt with as a practical one, on a balance of advantages and disadvantages. If it can be proved that, our society being what it is, public ownership affords the best means of making use of the resources of the land, and the best way of safeguarding the liberties of the community, there is no more to be said. But there is a good deal on both sides of this question.

To begin with, it is undeniable that the pride of ownership and the sense of absolute security in possession have proved to be, in a multitude of instances, among the most potent means of stimulating industry, thrift, and self-respect. In all countries where a landowning peasantry exists, as in Ireland or France, these motives are extraordinarily powerful; and in these countries any proposal of State ownership of land would be violently resisted. During the last three years we have seen how, in Russia, the uncompromising Communist theories of the Bolsheviks had to give way to the passionate eagerness of the peasants to own their loved acres;

even the Bolsheviks have had to accept, though with a bad grace, the establishment of a system of private ownership of land. We are not entitled to disregard a feeling so strong, so world-wide, and so capable of producing fine results. For that reason there are many thoughtful and public-spirited men who, while recognising that land stands upon a different footing from capital, nevertheless hold that in the case of land, as of capital, a very wide diffusion of private ownership is better for the community and better for the individual than any system of public ownership.

These considerations are not in themselves conclusive. It may reasonably be urged that a tenant under public ownership, if he were given security of tenure, would really be better off than a proprietor, because he could more easily acquire his land and more easily dispose of it; while enjoying secure possession he would be saved from that slavery to the land which often marks the peasant-owner in countries where small properties are common. For that reason, in the movement for the creation of small holdings, Liberal policy has generally favoured tenancy under public ownership, while Conservative policy has favoured outright proprietorship. It may also be urged that the scientific development of agriculture is in fact discouraged by a system of small properties whose owners cannot carry on large-scale cultivation, or expend adequate capital on their land; the small proprietors, who were numerous in eighteenth-century England, had to be swept aside before scientific agriculture could win its triumphs. Finally it may be urged that, if large

properties in land offer obstacles to public improvements, the existence of a very large number of small properties would offer still greater obstacles.

The arguments, therefore, for and against private property in land seem to be balanced. But when we come to consider whether it is desirable to undertake a definite programme of land-nationalisation the fact that there is so even a balance of argument, and that there is a very great body of real and sincere feeling in favour of private ownership, constitutes a material factor. The operation of nationalising the land by one sweeping enactment would evidently be a gigantic undertaking, certain to lead to conflict, dislocation, and bitterness on a very large scale ; and this at a time when the nation is already overstrained, and when a great complex of problems awaiting solution have already disturbed the normal placidity of our people.

It is, indeed, a fact of vital importance, which ought not to be disregarded, that the community has in fact permitted during many centuries the upgrowth of an all but universal system of private ownership, with which all sorts of traditions and sentiments, whose strength and value no wise man will underestimate, are closely intertwined ; and that it has encouraged the frequent transfer of ownership, the investment of savings and the exercise of private effort upon the land, to such an extent that there is now an inextricable tangle of rights and claims which cannot merely be brushed aside. Moreover, during these last years of rapid change, a transfer of ownership has been taking place on a very great scale. Farmers have been buying their farms ; great estates have been broken

up ; quite humble people have, in very large numbers, sunk the savings of their lifetime in the purchase of houses and patches of land. Since the war the number of owners of land in this country has been very largely increased ; and this process has almost certainly been accompanied by a growth of the pride and sentiment of ownership.

In face of all these facts, the Liberal, unwilling to allow himself to be dominated by abstractions, will conclude that, since there is much to be said, from different points of view, both for public and for private ownership, it is desirable that both should co-exist, each yielding its own advantages, just as, in the field of industry, a great variety of method and experiment should be encouraged.

The Liberal will the more readily come to this conclusion because the main evils which have attached to private ownership can in fact be largely or wholly remedied without recourse to so heroic an expedient as the immediate nationalisation of all land ; while at the same time the purposes for which public ownership would be most valuable can be met by a system of compulsory purchase on reasonable terms.

The two chief drawbacks which have attended the private ownership of land are (1) that the owners of land, especially in the neighbourhood of large towns, reap the benefits of the increase of the value of the land which is due to the activities of the community ; and (2) that they are in a position either to stop healthy developments and improvements by refusing to sell their land, or to name their own terms for permitting them to take place.

Liberalism is deeply committed to proposals for

removing these evils. Before the war a Liberal Government and Parliament introduced measures having these ends in view—a system of land taxation, and especially of duties on "unearned increment," together with a system of land-valuation to determine the basis on which these taxes, and also rates, should be paid. The proposals, which were greatly altered during their passage through the House of Commons, and in their final form represented more or less of a compromise, were only partially successful; largely because the process of valuation was necessarily slow and expensive. In 1920 the whole system has been swept away by a Conservative Chancellor of the Exchequer, with the consent of its principal author, now Prime Minister. No substitute has been provided, or even suggested for the future.

In the eyes of most Liberals this is a disastrous retrogression; in the eyes of many, a betrayal. In any case Liberalism is pledged to find a new and more effective means of securing the ends we have defined.

It is not our business here to define the terms of legislation in a complex and difficult question. But in case there are any who imagine that the events of this year have proved the impracticability of any such reform, it may be worth while to indicate one way in which the result desired might be comparatively easily attained.

Let every landowner be required, within a defined period, to assess the value of his own land, apart from the buildings on it, and of each parcel of it: that will overcome the difficulty arising from the slowness of Government valuation. Let this valua-

tion be accepted without question. On this basis the landowner will pay his rates ; on this basis he will be taxed ; and at this price the community can purchase his land when it is needed for communal purposes. When the land changes hands either by inheritance or by sale to a private purchaser, there will be a new valuation, determined by the price obtained or by the valuation for probate. Any change in value as compared with the owner's original valuation will be due to one or more of three causes : to the expenditure of capital on the land ; or to an alteration in the value of money ; or to " unearned increment " due to the activities of the community. Let the changes in value due to the first two causes be allowed for, and any increase that remains will represent " unearned increment." The community may justly take the whole or any part of this increment ; and it is for the community to decide how much of it it will take, and in what way. On the other hand there may be a " decrement," and in that case the new owner of the land is entitled to have his valuation for purposes of rates and taxes revised accordingly.

With the provisions for the valuation and taxation of land should be coupled a Land Purchase Act, empowering any public authority, subject to reasonable conditions, to buy land required for public purposes at the price fixed according to the official valuation, on which rates and taxes are paid, or, in the case of urban areas, to acquire at this price whatever land it requires for purposes of development. This power of compulsory purchase would, of course, be limited to public authorities requiring land for public purposes. It would enable a Town

Council to buy the land necessary for the reconstruction of a slum ; a County Council to buy the land needed for small holdings or experimental farms ; the Admiralty to buy the land needed for a new dockyard ; the Railway Board to buy the land needed for an extension ; it might be extended to allow a University to buy the land needed for a laboratory, or for other such purposes. But in any case the land required would be obtained at a just and reasonable figure, to which would only have to be added, in many cases, some compensation for disturbance, payable to the tenant.

There is, however, another difficulty which stands in the way of large proposals for public improvement. When a Town Council wants to clear out a slum, or a County Council is faced by a large demand for the creation of small holdings, it has somehow to borrow the money required, and it is often difficult to do this. This difficulty would be overcome if, instead of being paid in cash, the landowner were paid in bonds issued by the Treasury. He would thus get a Government security bearing a fixed rate of interest. The interest on the bonds thus issued should be a charge on the public authority which had obtained the land, but it should pay slightly more than the actual rate paid on the bonds, in order to provide a sinking fund by means of which the capital could be gradually paid off.

On this basis it would be possible for public authorities, without either secrecy or delay, and without any elaborate financial operations, to acquire at a reasonable price possession of any land necessary for public improvements, subject only to such restrictions, in the interests of justice and of

sound finance, as the State might impose. The land thus acquired should remain permanently in public ownership ; its alienation should be prohibited.

It should be noted that, in general, it would be the land worst treated under private ownership which would be thus acquired. The good landlord, who spent time, thought, and money on his land, who treated his tenants with understanding and generosity, and who felt a sense of responsibility for the use of the power vested in him, would usually be left undisturbed. There are many such landlords ; their work has provided, in a large degree, the justification for the existing system ; and there are many who think that their individual and personal interest, their sense of obligation and of the duty of public service, their knowledge of and long-established friendliness with their tenants, are factors making for good-fellowship and for good work which would not easily be replaced by a bureaucratic administration under a scheme of land-nationalisation. These qualities, where they exist, are in the highest degree worthy of preservation.

A scheme which contemplates and renders possible their preservation, which puts a premium on the good landlord and penalises the bad, and which thus retains a valuable element of personal and individual service and effort, while at the same time it removes the evils that have resulted from private ownership in land, and gives to the community the power to protect its liberty without unduly enlarging the sphere of State interference, is wholly in accord with the fundamental ideas of Liberalism.

## XV

### AGRICULTURAL DEVELOPMENT

THERE remains an aspect of land policy yet more important than the foregoing: the development of the resources of the land, and the establishment of British agriculture in secure prosperity.

That this must form an essential element in a sane national policy has been made pretty obvious by the experience of the last few years. Before the war we were producing less than half of the foodstuffs necessary for our population, and only one-fifth of our staple foodstuff, wheat. In the same years Germany and Denmark were producing double the amount of foodstuffs per cultivated acre that we were; and the soil of these islands is not naturally less fertile, but more fertile, than that of Germany and Denmark. If we produced as much per acre as Germany and Denmark, we should get from our own soil nearly enough to feed our population, though not enough wheat. Our failure to do so means that we are failing to utilise fully the greatest and the most stable source of our wealth, and almost the only one that is wholly under our own control; and, what is yet more important, we are failing to make use of one of the best means of producing a strong and healthy population.

During the war, this failure nearly brought us to

utter ruin. The effort we made during the war (when England was the only European country which materially increased its production of foodstuffs) showed that it was possible to bring about a great improvement, even in face of the facts that our agricultural population has terribly shrunk in numbers during the last generation, that it was heavily depleted by the calls of the Army, and that the highly-skilled profession of agriculture cannot be successfully carried on by amateurs, however zealous. It is our plain duty to make sure that we are not again reduced to the same predicament.

There are, it is true, some people—including some eminent Liberals—who say that we ought to frame our policy on the assumption that we are going to enjoy permanent peace, not on the assumption that there is going to be a renewal of war ; and that we should leave agriculture to its own resources. That is rather a sanguine or ostrich-like view. However eager we may be to ensure the success of the League of Nations, it is not yet safe to assume that the millennium has been attained ; the omens at the moment are not very hopeful. In any case, to neglect our food resources, and to leave ourselves as defenceless as we were in 1914, or possibly more defenceless, would surely be a positive encouragement to the renewal of war. The spectacle of these rich islands at the mercy of any Power which was prepared to employ ruthlessly a handful of submarines—now more dangerous than they ever were —would surely be a criminal challenge to war. The development of our food resources is not only necessary as a measure of protection in the event

of war, it is necessary as a safeguard for the continuance of peace.

But there are other considerations which lead in the same direction. There is to-day a serious shortage in the world's production of foodstuffs; and it will be a good many years before this shortage is cured. It is our duty both to guard ourselves against it, and to make what contribution we can to the common need of the world.

Moreover we have to contemplate, and prepare against, a change in the character and direction of our foreign trade, by means of which we have hitherto kept ourselves alive. A highly important element in our foreign trade has hitherto been the export of coal. That has declined, and will probably continue to decline, partly because we are producing less coal, and producing it at so high a price that we are being undersold in foreign markets; partly because—quickened by this very fact—the world is increasingly using oil instead of coal for many purposes. This may lead to a general decline in our foreign trade, in which case we must use every means of increasing our home production of wealth to make good the deficit.

Even if this result does not follow—and it can only be averted by energy, foresight, and hearty co-operation—the decline in the export of coal handicaps our shipping, which is the very breath of life to us, because it deprives it of bulky and profitable out-going cargoes, which saved ships from the necessity of doing half their trips with empty holds and therefore kept freights down, and made it possible for our ships to compete with their rivals.

The only way in which we can remedy the reduction in bulky out-going cargoes is by bringing about a corresponding reduction in bulky in-coming cargoes. This would, no doubt, reduce the total volume of freight carried to and from this country. But it would mean that the ships would be more able to get cargo both ways, and so could charge freights which would enable them to compete with foreign rivals; and it would release ships for the general carrying trade in all parts of the world, by which we earn much of our national income. The only way in which we can balance the reduction of bulky out-going cargoes is by reducing the import of foodstuffs; and the only ways in which we can do that are either by starving (which we may come to) or by a greatly increased production at home.

Thus on all grounds it seems to be of the highest national importance that we should do everything in our power to bring about a great revival and development of British agriculture. We may regard it as certain that if scientific method, the increased use of machinery, enterprise, co-operation, organisation, skill, and initiative were more vigorously applied than they have hitherto been, great results could be obtained from our fertile soil without any burden upon the taxpayer. What are above all needed for the development of our agriculture are more brain-power and better organisation.

The most valuable aid which the nation can give to the revival of its agriculture is the organisation of research, and the systematic diffusion of its results. To this we must mainly trust, if our past neglect is to be redeemed. But the work must be

undertaken in no half-hearted or niggling spirit. Here, assuredly, is a sphere in which generous and intelligent expenditure will reap a fifty-fold return. If we can obtain a scientific analysis of all our soils, and the best ways of enriching them, and the uses to which they can be most profitably put ; if we can study the problems of plant-life systematically in relation to our climate ; if we can explore to the utmost the possibilities of labour-saving devices in field-work, and the best ways of bringing about economies in distribution ; and if, finally, we can by a highly organised system of propaganda lead our farmers to welcome new methods and to study them, instead of clinging to the rule-of-thumb methods of their ancestors, there is scarcely a limit to the improvements which can be brought about in the productivity of our rich and fertile soil.

But more than this is needed. One of the main reasons why agriculture has decayed has been that men of ability and initiative in all grades have been drawn away from the fields, leaving only those whose love for the land was too great to allow them to be tempted, or those who were too stolid and conservative to change. They have to be attracted back again ; that is the main desideratum. It cannot be satisfied in a day, and patience will be required.

What is needed if men of keenness and ability are to be attracted into agriculture, not only as big farmers, but as labourers and as small holders ?

First of all, a man who takes up agriculture must be sure of good wages, on which he can decently support a family. He must be able to get a good

house, which will really be his own, not liable to be taken from him if he gets into the bad books of the farmer. He must have no reason for looking forward to the workhouse, which has hitherto been too often the reward of a long life of honest work. He must have prospects of advancement, however humbly he may begin ; the chance of taking a small holding, and of getting, on the strength of his industry and character, advances of the capital necessary to work it ; and beyond that, the chance of taking a bigger farm if he has enough ability, thrift, and industry. Finally, he must be saved from the deadly stagnancy which has fallen upon village life in England, not merely by being provided with the means of rational amusement, but still more by being able to feel that he is a member of a co-operative community, which helps him and deserves his service. If such conditions could be established, there need be no fear of men not being attracted to a country life, the longing for which is ingrained in most Englishmen, most of whose ancestors, until yesterday, lived this life. These are the conditions which we must set ourselves to create. What ought to be done to create them ?

First of all, in order that he may be able to pay good wages to his labourers (which is the root of the whole matter) the farmer must be helped to make use of every scientific method, and of every mechanical device, for increasing output at the least possible cost. The war has already taught him much in this regard ; but much more can be made possible by experiment and research, and by making new methods and inventions known by means of demon-

stration. That is a proper function for the State. Secondly, advances of working capital must be made easily available both for the large farmer and for the small holder. If the existing banks will not undertake this on an adequate scale, a new banking system must be developed, as in other countries. Thirdly, the producer, large or small, must be supplied with the best possible facilities for marketing his produce on the most favourable terms. That is partly the work of the railway system. But it can also be greatly forwarded by a co-operative system such as has worked a revolution in the agriculture of Ireland and of Denmark ; and co-operation can do much more for the farmer, the small holder, and the labourer besides helping them with marketing.

All these are methods of stimulating and assisting agricultural development which, if systematically used, would bring new life into our countryside. They have to fight against much stolid conservatism, but a good deal has already been done by the pressure of the war, and much more can be done under intelligent leadership.

But in addition to all this, the producer must, we are told, be assured of a price for his product which will enable him to pay good wages, and encourage him to put forward his best efforts, to take risks, and to aim at the maximum yield which his fields can give. How is this guarantee to be given ?

Some think that it can only be assured by means of a tariff on imported foodstuffs : some even speak as if a tariff would be enough by itself to bring about a great revival of agriculture. But a tariff

is a double-edged weapon, very ineffective for the purpose for which it is devised, and very costly. If it is necessary for the community to pay for the revival of British agriculture—and it is by no means certain that this will be necessary, as things now are—it is much better, and much cheaper, to guarantee a price, and to pay the farmer directly, out of the national exchequer, the difference between the market-price and the figure of the guarantee. A tariff raises the price all round, both of the imported and of the home-produced article; and though part of its proceeds comes into the exchequer, the total amount paid in increased prices by the consumer is likely to be much greater than the amount of any subsidy to the farmers. A tariff is operative in every year whatever the world-price may be; a subsidy will only be paid when the world-price is lower than the guaranteed price, and only to that extent—the community pays only what is necessary to effect the purpose in view. If, as may well be, other devices succeed in improving and cheapening the home product, the subsidy may not have to be paid at all; the tariff will always have to be paid. At present the world-price is so high that, though a guarantee is given, it does not actually cost anything. This state of things will probably last for a number of years; and by the time it has come to an end, energetic measures for attracting brains and skill into agricultural work, for conducting research, and for organising more efficient methods of co-operation and distribution, may have made it possible for British farming to hold its own once more against all rivals, even

without subsidies. In any case, a system of guaranteed prices should be regarded primarily as a transitional measure, while research and organisation are bringing about an improvement of methods.

But even this is not all that is required. The cultivator, whether large or small, needs greater security of tenure than he now enjoys. He needs real safeguards against unreasonable increases of rent—the only sound reason for an increase of rent, in general, being that the landowner has expended money in improving his land. He needs greater freedom from restrictions embodied in his lease, whereby he is tied down to certain methods of cultivation and denied freedom for experiment. In some of these respects the last Liberal Government has already given real relief ; but there is more still to be done. Finally the small man needs a very great increase in the opportunities for taking up small holdings on reasonable terms. Not that the small holding ought to be regarded as the principal means of bringing about an agricultural revival : it is on the large farm (which may often be co-operatively run) that large-scale scientific production can best be undertaken. But there are certain forms of production for which the small holding is peculiarly well suited. It also offers a career for the small man, a stimulus to ambition ; and for this reason small holdings ought to exist alongside of large farms. The great obstacle in the way of extending the number of small holdings on an adequate scale has hitherto been the difficulty of obtaining land at a reasonable price for the purposes contemplated by the Small Holdings Acts.

The system of compulsory land purchase at reasonable prices which we have already suggested would rapidly and easily amend this.

It is not a simple matter to revive English agriculture after the neglect which it has long suffered. A whole code of legislation is required, backed by enlightened and sympathetic administration. But the object of this code would be, not to make the cultivation of the fields a function of the State, but to use the power of the community for the purpose of releasing the factors of enterprise, individual energy, and voluntary co-operation from the shackles which have hitherto restrained them ; and to open, on the rich soil of England, a career to talent and a field for the exercise and development of individuality. These are aims wholly in accord with the spirit of Liberalism ; nor is there any aspect of national life in which that spirit is likely to lead to richer results.

## XVI

### OTHER ASPECTS OF SOCIAL POLICY

In the foregoing pages we have tried to analyse the principles which should guide Liberalism in an advance towards a healthier industrial organisation, wherein not the few only, but all who share in the work of production, could feel that they might willingly and zealously co-operate as free men ; an advance not dominated by a preconceived and rigid scheme defined in abstract formulæ, but using and delighting in an infinite variety of method, and leaving abundant outlets for many forms of individual energy.

But a reconstruction of industrial organisation is not enough to satisfy the needs of a free community which values manhood more than wealth. It is not enough even for the highest kind of industrial efficiency, which ought surely to thrive best if its agents are men and women with healthy bodies, sound tastes, and alert and active minds ; men and women of real individuality, whose powers are not allowed to run to waste.

The conditions created by the industrial development of the last century and a half have certainly not been favourable to the production of a population of this character. They have condemned the

bulk of the nation's manhood to live in ugly, depressing, and unclean surroundings; and the healthy protest against these constitutes a very large element in the unrest and discontent of to-day. They have produced a population of alarmingly low physical standard. Nor has nearly enough been yet done to render easily accessible to all men the means of self-training, whether in practical arts, or in those nobler studies whereby a man finds his better self by learning the greatness of the heritage of beauty and of thought to which he is the heir, and whereby he becomes more fully a member of the community by entering into the best traditions, and sharing the hopes and achievements, of his ancestors. Finally, considering the extent to which modern industrialism is dependent upon the discoveries of science for all its advances, it has been quite extraordinarily neglectful of the importance of providing for skilful and unflagging scientific inquiry.

For all these needs a wise and forward-looking policy must take thought: for housing, and the amelioration of our cities and villages; for the health of our people; for education, of adults as well as of children, and the enlarging and refining influence of the arts; for organised and systematic research. Provision for these ends is essential to a sound industrial policy, though it looks to ends far wider than mere industrial success. In theory we are all awake to these needs; and we recognise that they cannot be left wholly to the spasmodic and unregulated operation of private forces, but that the organised power of the community must be brought into play to supply them.

But there is great danger, in all these spheres, and more especially in the less material of them, lest governmental and official control should be carried too far, and should exercise a deadening influence. This danger is already perceptible in our educational system, which tends to shape everybody after an accepted pattern, and by so doing to stunt individuality. Here again, as in the industrial sphere, the problem is to combine the necessary degree of communal action with the maintenance of individual and local freedom and variety of method. Here again the Liberal passion for individuality and freedom is needed to safeguard us against a stereotyped, centralised, over-regulated system.

### i.—*Housing and Town-Planning.*

The problem of housing, and the closely-related problem of improving our cities and towns and clearing out their soul-destroying slums, are to-day more difficult than ever, because we are now an impoverished and debt-laden people; while the urgent need of a great increase of housing accommodation, and the extreme difficulty of meeting it owing to the high cost of materials and the scarcity of qualified labour, render it futile to undertake any large projects of demolition and reconstruction.

Yet the very fact that there is so much to be done ought to encourage us to take long views, and to make sure that the work of home-making now to be undertaken is not carried out in such a way as merely to ensure the creation of new eyesores and plague-spots. We are paying heavily to-day

for the failure of our ancestors to look far enough ahead a hundred years ago ; at the beginning of what will probably be a new era of rapid construction we must not be guilty of a similar blunder. It will be indispensable that our action in this field should be guided and controlled by legislation and by the administrative activity of public bodies, national and local. At the same time it will be wrong to depend wholly upon centralised control, or upon the official action of public bodies. Every means of enlisting the aid of enlightened private effort, and of guiding it into fruitful channels without restricting its freedom for experiment, should be employed.

Thus all possible stimulus, encouragement, and assistance should be given to great industrial concerns to enable them to provide housing for their workpeople in conditions that preserve the amenities in the manner already adopted by some progressive concerns, as at Port Sunlight and Bournville ; on condition that these projects are not worked for a profit, and that proper freedom is allowed to the tenants, they can legitimately be financed in part out of public funds. If the railways and the mines are brought under public ownership in the method already suggested, it might properly be made an obligation upon the railway Board and the Board of Mines to ensure that adequate housing was available for the workpeople in these industries, amid conditions of reasonable amenity.

Again, all possible assistance, including help in the raising of the necessary capital, should be given to those admirable public societies or companies

which have undertaken to create properly planned towns, villages, or suburbs by co-operative effort, on the conditions that (*a*) only a limited rate of interest is paid on their capital, and that (*b*) the increased value given to the land by their activity is secured for the public, and employed for the provision of open spaces and other amenities. A very great expansion of this kind of public-spirited private enterprise is both possible and eminently desirable ; it leads to useful and varied experiments ; and State action which will help and foster such work is wholly in accord with the ideals of Liberalism. These enterprises represent in almost an ideal form the combination of public service with individual initiative and originality, and with the earning of a fair but definitely limited return on widely-diffused capital.

But, when all is said, private enterprise alone cannot possibly meet the need. The responsibility is now definitely imposed upon all urban authorities to make plans for the future development of the areas under their charge—plans which must deal not merely with the treatment of particular undeveloped areas or of small slum regions, but which must look far ahead to the future reconstruction of the whole town, and to which smaller projects can be adapted. Our dependence for the future must rest upon three factors : the stimulus and guidance of the national Government ; the strenuous and systematic activity of local authorities, trying every form of experiment ; and, finally, the fertile and varied activity of private enterprise, which, though no longer left unchecked and unaided, must

be allowed great freedom and given the utmost encouragement.

For all this work a very important need is the power of acquiring land easily and on reasonable terms, and the means of financing the acquisition of land without dislocating the finances of the body undertaking it. We have already shown that it is the accepted policy of Liberalism to facilitate this very necessary work.

### ii.—*Public Health.*

In the sphere of public health, we have just witnessed the institution of a new or reorganised department of Government, not before it was needed. It has as yet shown no great boldness or breadth of conception. But it is still too early to judge of its work; and for that reason it is enough to say that there is no sphere in which Liberalism recognises a greater need for courageous communal effort; since there is nothing upon which the development of free individuality, and therefore of liberty, more manifestly depends than the maintenance of conditions favourable to the sound body which can house the sound mind.

At the same time, there are few spheres in which personal liberty may be more easily endangered by a *régime* of over-regulation and of excessive bureaucratic control; and Liberalism, while recognising the need for an immense expansion of public activity in this sphere, must be always on the alert against this danger.

In the past the provision of aid for the sick and

the suffering has been left to voluntary effort in far too great a degree; and the community has been too blind to its communal responsibilities in this sphere. The beginning of a new era of organised public effort in this field was made by the Liberal Government of the pre-war period, in its provisions for insurance against sickness, for systematic medical attendance, for the medical inspection of school children, for the safeguarding of maternity, for the treatment of tuberculosis; and the foundations thus laid will have to be built upon. We are, in truth, only at the beginning of communal effort in this sphere. There are many fields, such as the treatment of infectious diseases, in which private enterprise did practically nothing; and the more the subject is studied, the more patent it becomes that our main reliance must be upon communal activity.

But while we recognise the need for a great extension of the communal provision for health, we are bound also to recognise that there is no sphere in which private enterprise, though insufficient by itself, has been more beneficial, more original, more public-spirited, more sympathetic; no sphere in which voluntary personal devotion has been more abundant or more fruitful. It is impossible for any official public system wholly to replace this spontaneous outpouring of human kindliness; and it would be the greatest of blunders to discard it as if it were of no value because it is not easily fitted into a neat official scheme.

It is possible that, owing to the increasing poverty of those who have in the past mainly supported the

hospitals, we are drawing near to the time when they can no longer be wholly maintained by voluntary effort. But if that is so, it would be a profound blunder to jump to the conclusion, as many Socialists do, that the occasion should be seized to organise a State-controlled hospital system, from which the private subscriber and the watchful attention of voluntary committees will be altogether banished. To follow such a course would be wilfully to sacrifice a noble tradition, and to refuse to employ voluntary civic service in one of its noblest forms.

Here is, indeed, a very clear illustration of the distinction between the methods dictated by the ideas of Liberalism and those dictated by a doctrinaire Socialism. For while the logical Socialist would eagerly seize the chance of organising all hospitals in a systematic way under Governmental or municipal control, and placing them wholly on public funds, the Liberal, while recognising the need for public aid and public regulation, would on every ground prefer to make the utmost possible use of private and voluntary effort in a field in which it has done so much good work.

### iii.—*Education.*

When we pass to the supremely important sphere of education, the need for encouraging individuality, variety, and experiment is yet more apparent. Our British school-system has been distinguished by the large degree of power which it has allowed to local authorities, and by the limitation of the function of the State to financial assistance, inspection, and

advice. It has also been marked by the large place which it preserved for schools of all grades which were maintained or controlled wholly or partly by voluntary agencies. These features have maintained in our schools a certain degree of variety and individuality, in marked contrast with the strict and uniform centralised control which exists in some other countries.

Yet the fault of our educational system is to be found rather in the deficiency than in the excess of individuality. There is too little personal interest in and sympathy with the work of particular schools. Above all, the individuality of the teacher, upon whom everything depends, has been too much repressed, partly by the way in which he is trained, partly by the pressure of a deadening system of examinations, but partly also by the influence of public authorities and public officials, who are apt to find uniformity far easier to understand and work with than originality and variety. Under the great Education Act of 1918 we are at the opening of a new era, of infinite promise, in which the character of the future generations will be largely determined; and it behoves us to see to it that the freedom and variety of experiment in which the Liberal spirit believes are not crushed out by the fondness of ruling bodies and officials for laying down elaborate regulations; we have seen the results of that in the State-Socialist system of Germany.

How this danger is to be averted it is not our business here to discuss; it depends partly upon the giving of public recognition and aid to private

efforts and experiments when they satisfy certain broad conditions; partly also upon the way in which we deal with certain problems of political organisation which are becoming urgently important, but cannot be discussed here.

But with the results we *are* concerned, even from the point of view of purely industrial policy. It is only by means of an educational system which cherishes freedom and individuality, as the best parts of our system have done in the past, that we can hope to produce a nation of free men, or enlist in the service of the community and of its industries men with alert and active minds of their own, fertile in ideas, ready to assume responsibility, and penetrated with the community-spirit. And it is only a training conceived in this spirit, not a routine and uniform drill along accepted beaten paths, which will give to our people the sense that they are being trained to be free men rather than cogs in a deadly machine.

If freedom and variety are needed in the training of our young people, still more are they needed in that higher development of popular education the value and importance of which we are only beginning to realise—the education of those adults over school age who have for one reason or another (usually poverty) failed to follow the orthodox path through all the grades up to the university, but nevertheless feel the thirst for knowledge and enlightenment. Only by providing generously for such needs can we hope to make the best of the immense wealth of brain-power, originality, and capacity for public service which at present runs to waste; only so

can we disabuse many thousands among our citizens of the belief that in the order which now prevails they are treated merely as tools for wealth-making, and are denied the means of access to the riches of knowledge and thought, the means of making the best of their own powers.

How is such a system of training to be instituted —a system which shall give to able but untrained men what a university can give to those who have followed its courses, that is to say, a knowledge of how to find the best material on the subjects in which they are interested, how to criticise it, how to evaluate evidence, how to form opinions that are worthy of respect because based upon a real knowledge of what can be said on both sides of controverted questions ?

If the State were to organise under its own direct control any scheme of training of this kind, it would inevitably and rightly be regarded with suspicion, especially in so far as it dealt with political and economic questions ; because those who control the State at any given moment are themselves necessarily advocates of particular views on these subjects, and might be tempted to use any such machinery for imposing their views on the community. We have seen this done on a colossal scale, and with disastrous effects, in Germany, where the State, controlling all the Universities as well as the schools, deliberately used this power to diffuse its doctrines.

No free and thinking man will willingly submit himself to a course of training wherein he knows, or suspects, that the conclusions at which he is to arrive have been determined beforehand, that he

is to be led to accept cut-and-dried doctrines because other people desire that he should hold them. That is not what the able and inquiring workman who feels his own ignorance desires; he wants to be given the equipment which will enable him, as a free man, to form his own conclusions.

For that reason organisations like the Central Labour College, which deliberately aim not at training their students to think, and to weigh evidence independently, but at filling their minds with a cut-and-dried set of doctrines and arguments, cannot provide a solution of the problem which will be permanently satisfactory to the intelligent workman. In a free society such organisations have their place, so long as they are recognised for what they are—organs of propaganda, like the political clubs, whose aim is to impose beliefs rather than to train thought. But they do not and cannot meet the need which we are discussing.

If what is needed is a genuinely free system of training, wherein teachers and students alike can feel that they are absolutely unshackled as to the conclusions they reach on an honest and scientific examination of the evidence, this can best, perhaps only, be attained by entrusting to the Universities the duty of providing it, and equipping them with the means for doing so. For it is the glory of the British Universities that, unlike the Universities of some other lands, they are wholly free from any external control or dictation as to what they shall teach and how they shall teach it; especially they are free from the control of the State. The appointment of their teachers is never consciously influenced

by a consideration of their opinions; they are appointed solely in view of their ability, the range of their knowledge, their capacity to conduct independent and scientific inquiry, and to weigh conflicting evidence. Accordingly there is in no British University any uniformity of political or economic ideas, and every school of thought usually has its representatives, though they have never been chosen because they represent schools of thought, but solely on the ground of their scholarship.

A system of adult training worked through the Universities with generous State aid will thus be a free system; and it will at the same time enable those who use it to share in the garnered wealth of the nation's learning, which belongs to the whole nation, and ought to be open to all who can make good use of it. But a yet higher degree of freedom than this is both possible and desirable; the system can be—and in its hitherto modest beginnings is—so arranged as to permit the students to choose not only the subjects they wish to study, but (within practicable limits) the teachers under whose guidance they are to work.

### iv.—*Research.*

We have left to the last a need which stands perhaps highest of all, since it can alone provide the foundations for wise action in every sphere: the need for organised and systematic research into all the problems which surround and perplex our society. Upon the satisfaction of this need, more than upon any other single factor, depends

the possibility not only of our being able to produce sufficient wealth to secure for our people the material foundations of happiness and freedom, but also of our finding our way to sound methods of organisation in industry and politics.

And here, more markedly perhaps than anywhere, is apparent the necessity on the one hand for State encouragement and assistance, and on the other hand for the utmost possible freedom for private enterprise and individual initiative in a thousand forms.

The State must itself take action, as it has already, tardily and timidly, begun to do. There are some spheres in which necessary forms of inquiry can only be successfully carried on under the direction and at the immediate cost of the State ; some kinds of scientific investigation, to meet immediate public needs, such as the problems presented during the war ; some kinds of social inquiry, such as the actual facts about unemployment at any given moment, or about the cost of living, or about fluctuations in the purchasing power of money. On such matters the State alone can have access to the necessary materials for inquiry ; and it is its duty to conduct the investigations and to make the results public. But in the main the function of the State in this sphere is rather that of giving stimulus, encouragement, and support than that of directly undertaking the work itself. For research is so individual a thing that the mere notion of entrusting it to Government officials selected for the purpose is, except in certain limited spheres, manifestly absurd.

There is scarcely any function of importance to the welfare of the community which so clearly illustrates how directly that welfare depends upon freedom for individual enterprise, how impotent the State is to do more than regulate and encourage this enterprise, or how destructive and deadening its interference is likely to be if it goes beyond this. Artistic production provides another illustration of a communal service which is wholly dependent upon individual inspiration ; and it is in these spheres that the rigid doctrines of the extreme Socialist school which puts its faith in centralised organisation are most completely baffled.

We need, then, that every encouragement should be given to all voluntary organisations for the conduct of research, upon which our future depends. Every industry should provide the means for carrying on research into possible new processes and materials, as well as into the psychological factors in the industry, the problems of fatigue, or the like ; and it is right that the State should give all possible encouragement and assistance to such inquiries. Every individual business concern should regard research as one of its necessary functions. Every Trade Union should initiate inquiries into the effects of industrial conditions upon the minds and lives of the workers. Every education committee should organise research into the methods of teaching. Every political party or group should follow the admirable example set by the Labour Party, of carrying on organised research into the methods of political and social organisation. When all the sub-communities of our Great Society are awake to

the fact that inquiry and knowledge are the only sound foundations of progress, we shall begin to advance more rapidly towards real social welfare. And in proportion as men acquire the spirit and outlook of the investigator, and learn more of the difficulties of the problems in which they are involved, mutual tolerance and understanding will grow: these are the roots of good citizenship.

But when all is said, the organisations which we have enumerated in the last paragraph all exist to serve some predetermined end; the inquiries which it is their right and duty to initiate must necessarily be coloured by the objects which they are intended to serve; and although this will be in some degree corrected by the very multiplicity and variety of these objects, yet an absolute freedom to pursue knowledge solely for its own sake, and without any regard to the use which may be made of it, cannot be fully attained in any research-organisation set up by such bodies. But this absolute and unqualified freedom is the very breath of life for all the noblest forms of research; and all the greatest discoveries which have revolutionised human life and thought have been made by men who have pursued knowledge in this spirit.

It is impossible, by any masterpiece of organisation, to create the inspiration which leads to such results. But our community will be terribly impoverished if that inspiration, when it comes, lacks the opportunities for realising its potentiality. Happily there exist, in the Universities, centres of inquiry which are wholly free, which are uncontrolled by the State or by any organisation created to serve

a specific purpose, and which exist solely for the pursuit of knowledge without any other consideration. For that reason it must be always towards the Universities that men and women, in whom the spark of free inquiry has been set alight, must first turn. If, therefore, the life-giving spirit of free inquiry is to have real abiding-places in our community, it is beyond all things necessary that the Universities should maintain their freedom, should be emancipated from any shackles that may still bind them, and should be placed in a position to offer all needful opportunities to those who come to them with the zest of disinterested inquiry.

Liberalism must therefore regard the ample endowment of free universities as one of the essential foundations of a new and better social order. Here, as in the industrial sphere and in every other, the utmost possible freedom for every useful form of individual effort and enterprise, protected, encouraged and helped, but not unduly meddled with, by the organised power of the community, forms the mode which Liberalism believes to be the only safe and healthy mode of progress.

# XVII

## NATIONAL FINANCE AND TAXATION

It is almost useless to discuss the organisation of industry without reference to the system of national finance and taxation, for at every point the one is affected by the other. The burden of taxation, if unduly heavy or unwisely distributed, may so profoundly affect the production of wealth as to make the satisfaction of any of our ideals impossible ; the distribution of the wealth produced by the nation's activity is very directly affected by the proportion of it taken for national purposes ; and, finally, the weapon of taxation can be so employed as either to hinder or to help the process of social reconstruction. Some consideration of the problems of national finance therefore forms an indispensable element in our inquiry.

The character of these problems has been transformed by the conditions created by the war. Before the war about one-tenth of the wealth annually produced by the nation was taken for the purposes of the national government. Thanks to the colossal burden of interest on debt, of pensions, and of other unavoidable charges, this proportion has risen enormously ; it is not possible to say how much, but it is probably not an over-estimate to say

that between one-fifth and one-fourth of the wealth annually created by the nation has now to be used for national purposes. Only a very small part of this huge sum is employed for directly productive purposes, for the creation of new wealth, though a considerable part of it is employed for indirectly productive purposes such as education and public health.

The withdrawal of so high a proportion of the nation's income from directly productive uses must obviously form a handicap upon productive activity ; and it becomes a matter of supreme importance first to ensure that this burden is reduced to the lowest point possible, and secondly to ensure that it is collected in the least burdensome ways, and (so far as may be) in ways that may help rather than hinder the development of a healthier economic order. That is to say, we must first consider how the immediate and urgent problems left by the war are to be dealt with, and secondly on what principles our normal scheme of taxation should be framed under the new conditions. Like other political creeds, Liberalism is bound to give clear answers to these questions.

Our first plain duty is the most rigid economy in national expenditure. We are no longer a rich nation ; and out of our poverty we have to meet far greater calls than we ever had to meet before. We are in a situation in which a cheeseparing parsimony, both public and private, has become one of the greatest of civic virtues. Yet the habit of lavish and uncalculating expenditure, bred by the war, is hard to overcome ; and perhaps by way of

reaction, the whole nation has rushed into an orgy of extravagance. The habit of thrift seems for the moment to be dead ; though it is only by thrift, combined with hard work, that we can hope to emerge from our troubles.

The example must be set by Government. We cannot afford to maintain a Navy, an Army, or an Air-Force larger than the minimum necessary for national safety. We cannot afford to pursue an expensive foreign policy. We cannot afford to assume new responsibilities (as in Mesopotamia) even if it can be shown that our help is badly needed ; we have to be honest, and pay our debts, before we can be generous. We cannot afford to maintain a single public office not absolutely indispensable for the conduct of necessary or productive work. We cannot afford light-heartedly to undertake undefined and growing burdens such as are involved in subsidies like those on bread and on railway-travelling. We can afford these luxuries the less because it has on all grounds become indispensable for the national welfare that we should spend money generously on essential but hitherto neglected needs ; on research in many fields, on education, on the prevention of unemployment, on the development of various national resources which private enterprise has disregarded. And if it be true, as we are assured, that the limit of taxation has almost been reached, then it is plain that we can find the money for these essential outlays only by drastic economies in other directions.

Government has already done something for the reduction of expenditure from the lavish scale of

the war. But it has not done nearly enough. It is not unfair to say that neither the Coalition nor the Labour Party has shown any genuine enthusiasm for the unpleasant but salutary medicine of cheese-paring economy. A hundred years ago, when we were in a similar but less serious plight, the unwavering cry of Liberalism was for "Peace, Retrenchment, and Reform." To-day, as a century ago, Peace and Retrenchment are the essential prerequisites for Reform.

But the greatest zeal and courage in retrenchment will not be enough. We must face squarely the very grave situation in which we stand. And the gravest feature of this situation is that we are loaded with a national debt of some £8,000,000,000, involving an annual charge for interest and sinking fund alone which is twice as great as the total national revenue before the war. The preliminary question of the whole problem of national reorganisation is the question, What is to be done with this appalling burden? So long as it hangs like a millstone round our necks, we cannot hope to work with energy. For, as with the cannon-ball that used to be chained to the ankles of convicts, the longer the drag lasts the more it tells upon the strength of the man who has to endure it.

It is important to keep in mind one distinctive feature of this colossal debt. The greater part of it was borrowed at a time when prices were very high, and when therefore the purchasing power of money was low; £100 lent to the Government in 1918 or 1919 could only purchase half as much steel or khaki as it could have purchased in 1914,

and therefore Government had to borrow twice as much money as it would have needed had prices remained at the 1914 level. On the other hand, just because it had to borrow on so large a scale, it had to offer a high rate of interest, nearly twice as high as it was paying in 1914. Now suppose prices fall again, as they are bound to do in course of time. If Government then begins to repay the debt, it will have to pay back the £100 (which was in 1919 only worth £50 at 1914 rates) with £100 which will then be worth in real wealth perhaps £70 on the 1914 basis. That is to say, the holder of debt will nominally get £100 for £100, but really £70 for £50. In its distressed condition the nation cannot afford to pay such heavy premiums. Therefore it is important that, so far as possible, the debt should be cleared off while prices are still high.

There are three main ways in which it has been proposed to deal with this colossal burden.

The first is that of simply repudiating it—the simple method adopted by the Bolsheviks in Russia. It is not necessary seriously to discuss this method, which is only advocated by lunatics who do not understand the first rudiments of the problem. For, apart from the utter dishonesty of such a course, it would obviously ruin the national credit, destroy the possibility of getting any future loans either at home or abroad, persuade the thrifty that, whatever else they might do with their savings, they must never lend them to the State, bring bankruptcy upon the great banks which have lent to the State a great part of the funds at their disposal, and thus make it impossible for them to give the necessary

advances to industry, and bring about a general stoppage of trade, with universal unemployment and distress.

The second method is that which has always been used in the past, both in our own and in other countries—that of paying off the debt gradually out of a surplus of income. It is sometimes estimated that this could be done in fifty years, but this calculation assumes that we shall have fifty years of peace and of fairly steady prosperity. It is a sanguine calculation, especially in view of the fact that the much smaller debt incurred in the Napoleonic wars had not been wholly paid off even in 1914, after a century of great prosperity.

Moreover, this method is attended by two great difficulties. The first is that the nation would have to go on bearing taxation at something like the present rate even if trade were good ; while if a trade slump were to come the rate of taxation would have to be greatly increased to meet the debt charges. The burden of taxation is already so high as to be a handicap to productive industry ; if it had to be materially increased at a time when, through trade depression, the nation was poorer than it is to-day, the results might be disastrous. The second difficulty is that if prices go down—as we all hope that they may—the repayment of debt would be carried on upon very unfavourable terms ; each debt-holder, on receiving the nominal amount due to him, would in reality be receiving an amount of real wealth far greater than his original loan represented at the time when he made it.

To get over these difficulties it has been proposed

that we should cut the knot by a frank levy on capital—either on the additional wealth which many men have made during and because of the war, or on all existing capital.

A levy on capital is a perfectly legitimate method of emergency taxation, provided that it is equally distributed on principles that are just to all concerned ; though, of course, it is only defensible as an emergency measure, and would cause a great feeling of insecurity and gravely discourage saving if it were to be repeated.

One of the reasons against it is that if it were once employed, Governments in difficulty might be tempted to use it again, and that this temptation would be especially strong to a Labour Government. To this it may be answered that the one safeguard against such a tax lies in the danger of creating insecurity which it presents ; and that this danger is so real as only to be balanced by a grave national emergency such as now faces us. A Government which failed to realise this danger would certainly not be deterred by the fact that such a levy had never been made before. On the contrary, if it *had* once been made, on a substantial scale, with a clear understanding that it would not be repeated except in an equally grave crisis, the temptation to use it would to some extent be diminished, partly because of this understanding, and partly because the taxable margin would obviously be reduced. Our only safeguard against destructive measures in any event lies in the sound sense of those who conduct our affairs. We have to trust to that whatever happens ; and it is foolish to argue that you ought

not to leap from the second storey of a burning house lest other people should get into the habit of jumping from second storeys. If a capital levy can be proved the best way, and a practicable way, out of our difficulties, it ought to be adopted.

The proposal to limit such a levy to wealth made during the war has much to recommend it on the surface, since a great part of this wealth was undeniably due to the distress of the nation, and ought to have been prevented if Government had known how to achieve this end. The project of a levy on war-wealth was very carefully considered; and the Revenue Officials were of opinion that it was practicable. But there were some strong reasons against it. It would have involved a valuation of everybody's wealth not only as it is to-day, but as it was on August 4, 1914; and the earlier valuation could only have been carried out in a very rough way. No proper discrimination could have been made between those who had stinted themselves to the utmost, as many did, in order to lend what they could to the State, and those who made fabulous sums with little effort while denying themselves nothing. If a levy on war-wealth were to make any serious impression upon the debt, it would have to be on so severe a scale that it would have crippled or destroyed many useful activities now carried on by means of the wealth thus gained. In the form in which it was finally proposed, the project would in fact have done little to relieve the situation, and it presented many difficulties, the greatest being that of the double valuation.

If the method of a levy on capital is to be adopted, it is therefore best on every ground that it should be applied to all capital. In truth the debt is a burden, a sort of mortgage, on the country's capital taken as a whole; and, provided that it can be fairly done, it is right and fair that this mortgage should be redeemed out of capital, so far as this can be achieved without disorganising productive industry.

The difficulties to be overcome are twofold. The first and the greatest is that of valuing all capital (including land). But if (as the Revenue Officials held) it was possible to overcome the difficulty of a double valuation for the purpose of a war-wealth levy, it would obviously be much easier to overcome the difficulty of a single valuation of capital as it stands to-day. Indeed, such valuations have to be made every day for the purpose of death-duties, and in this way the whole capital of the country undergoes valuation in the course of a generation. Every individual owner would be required to make his own valuation, under heavy penalties for fraud; and the Revenue officers, who have full information as to income-tax assessments and the market price of shares, would have good means of checking the returns. No doubt there would be a good deal of fraudulent evasion, as there is in income-tax assessments; that can hardly be avoided.

The second difficulty is that of paying the levy. How, it is asked, could a man whose capital is nearly all sunk in a mill or a farm, or employed for the daily needs of his business, make over one-fifth

or one-tenth of it to Government without completely dislocating his business? If Government were loaded up with scrip or title-deeds to lands, it would either have to realise them on the market, in which case there would be a sudden slump in the value of all these securities, or it would have to hold them and draw interest on them, in which case it would not be able to pay off the debt, and might as well be content with an increased income-tax.

This difficulty, however, is not nearly so great as it appears at first sight. In the first place, nearly all owners of capital have subscribed to war-loan. They would naturally use their holdings of war-loan, so far as they went, to pay the call upon them; and the war-loan would simply be cancelled to that extent. In the second place, many holders of war-loan would be willing to take shares in industrial concerns in exchange, and it would not be difficult for Government to arrange a system of exchange of this kind. In the third place, a reasonable allowance of time might be allowed in special cases, the payment of the levy being spread over two, three, or even five years. And there are other devices which could be adopted to make the transaction as easy as possible. The difficulty is a real one, but with care and thought it could be overcome.

Any capital levy would have to be graduated, leaving the savings of the small man (say up to £4,000 or £5,000) undisturbed, and rising up to such a figure as would enable one-half of the debt to be paid off. One-half is as much of the debt as we ought to try to clear off in such a way, partly

because it is fair that some of the burden should be left to the next generation, partly because it is reasonable to calculate upon the eventual repayment of at any rate a part of the loans to Allies and Dominions which are included in the debt.

Assuming that one-half of the debt had been paid off in this way, what would be the result ? The actual amount of capital engaged in industry would not have been decreased ; but a part of it would have been transferred to persons now holding national debt. The amount of income liable to income-tax would have been decreased, because all the interest now payable on the cancelled debt would cease to be available for that purpose, and therefore, to that extent, the yield of income-tax would be reduced. But this would not matter, since there would be a far greater reduction in the interest which Government would have to pay, and this would render possible an actual reduction of income-tax and other taxes. Owners of large fortunes would be, in a varying proportion, poorer than they now are ; but their burden in taxes might be reduced, perhaps to an equivalent extent, and what they would have lost would not weaken the nation's productive power, since it would only represent capital already destroyed during the war. The public credit would be improved, so that after a time Government might borrow money at a lower rate of interest to pay off more of the old high-rate debt. The improvement of public credit would help to improve the foreign exchanges, and therefore to lower prices. Above all, the nation would have been saved from the inevitable future burden of

paying a heavy premium to the holders of national debt when it was redeemed.

All this is on the assumption that the operation could be carried out without a grave dislocation of industry. We have given reasons for believing that this is possible, but obviously much would depend upon the way in which the thing was done, and upon the amount of care, thought, and preparation devoted to it. Provided that this great and unprecedented undertaking is carried out with understanding and deliberation, after the fullest and most careful inquiry, Liberalism ought to advocate it as the best mode of escape from our present distresses. Obviously the scheme presents difficulties; it is folly to underestimate them or to slur them over. But, as we have seen, the only alternative, that of maintaining taxation at its present high rate, or perhaps even increasing it, in order to pay off the debt gradually, presents yet greater difficulties, and threatens a more serious future disorganisation of productive activity.

If for any reason it is decided that no such drastic measure as this is to be taken, we shall have to contemplate the retention of taxation at its present rate, or even at a higher rate, for an indefinite time. In other words, we shall have to realise that the conditions of national finance have been fundamentally altered. Whereas we used to assume that we could fix the amount we intended to spend on national purposes, and then raise the amount by taxation, thus ordering the amount of cloth we needed according to the pattern we had fixed for our coat, we shall henceforth have to levy taxation

up to the limit of safety, and cut our coat according to our cloth ; we shall have to do without desirable things, even perhaps without some things that might be plausibly regarded as necessary.

What is the limit of safety in taxation ? It cannot be defined except in the most general terms. But assuredly it will have been reached if and when the burden of taxation begins to impede or to stop the nation's productive activity. There are signs that we have already almost or quite reached this point ; for the decreased output and the increasing unemployment of the summer of 1920 are probably in part due to the effects of heavy taxation. And as we cannot very greatly reduce our national expenditure, every reduction in productive activity must mean a further increase in the rate of taxation, followed by a further hampering of production.

But it is not only the mass or volume of taxation which hampers industry. The form in which it is levied may have this effect even if the total burden, otherwise distributed, would be capable of being borne. Some forms of taxation have a deleterious influence out of all proportion to the amount which they yield.

This is certainly the case with one modern form of taxation, upon which we now depend for a large proportion of the national revenue—the Excess Profits Duty. In the form in which it is now levied it discourages all new enterprises, which are heavily penalised in comparison with well-established concerns ; it encourages wasteful expenditure ; it discourages all undertakings which are attended by any large amount of risk, as many of the most

useful and productive undertakings are ; for those who are responsible are bound to reflect that while they will have to shoulder the whole of any loss, they will be allowed to take only a very small proportion of any profit. Moreover the immense yield of the Excess Profits Duty is to a large extent fictitious ; for if no such duty were charged, nearly half of the sum it yields would come into the Exchequer in the form of income-tax and super-tax.

There are some who think that every difficulty can be met by the increased taxation of large incomes, and that these incomes can be taxed almost to extinction without disadvantage to the community. So far as these incomes are not due to any exertion on the part of the possessor, this may be true ; but so far as they are due to personal effort, the only result of such taxation must be to make it not worth a man's while to earn a large income, since his margin for spending will be practically as great whether he works hard or not. No Liberal has any tenderness for large incomes as such, or any hesitation about using the weapon of taxation as a means of reducing inequalities of wealth ; but the weapon must not be used in such a way as to check any man's legitimate efforts. And there is another consideration which must not be forgotten. As things are, a large proportion of the annual production of new capital comes from the unspent balances of large incomes. Unless and until the possessors of smaller incomes supply the deficiency by saving on a greatly increased scale, very high taxation of large incomes must necessarily reduce the amount of capital annually created, and therefore

check productive activity, which cannot go on without capital. Great incomes have to be progressively taxed for social as well as for fiscal reasons. But capital must also be created; and therefore the increase of taxation on incomes of higher ranges can only safely take place if there is a concurrent increase of saving from incomes of lower ranges. One of the alarming features of our time is that general extravagance is postponing the time when it will be safe to deal boldly with large incomes.

These considerations show how vitally important it is that taxation should be governed by clearly defined principles. Now this is a sphere in which it may justly be claimed that Liberalism is able to give a very clear lead, and to assert that its principles have triumphantly undergone the severest of tests. For the British financial system, which has stood the terrible strain of the war better than that of any other European country, was mainly worked out by a series of great Liberal financiers during the nineteenth century. The principles upon which their work was based are as true to-day as ever they were.

First among them ranks the principle that no tax ought ever to be imposed in such a way that the public has to pay more than the Treasury receives, and that the balance finds its way into private pockets. This is the strongest of many strong reasons for the policy of Free Trade; and it is in conflict with certain tendencies in modern taxation.

The second principle is that taxation should be levied in proportion to the ability of the taxpayer to pay without lowering his efficiency or making it

impossible for him to maintain a reasonable standard of comfort. This principle would forbid the imposition of indirect taxes upon necessaries or upon foodstuffs, in spite of the fact that such taxes are often the easiest to collect and the most productive ; because the burden of them falls disproportionately upon the poor. The principle suggests rather the use of graduated income-tax as the form of taxation most easily adjusted to ability to pay. The existing heavy duties on tea and sugar are inconsistent with this principle. In the present condition of national finance it may not be possible at once to get rid of them ; but it has long been the aim of Liberalism to abolish these duties at the earliest possible moment.

The third principle is that, in a democratic community, all citizens who enjoy an income above the limit of decent family subsistence ought to be called upon to pay something, however small, in a form which will bring home to them their joint responsibility for the national welfare and for the national expenditure.

The fourth principle is that those taxes should be preferred which will, while raising revenue, serve some purpose of social utility. Two purposes of social utility which can be served by taxation especially deserve mention because the purposes which they serve contribute to the economic health of the community. The first is the encouragement of thrift, which is undoubtedly forwarded by taxes on luxuries in so far as these taxes tend (as they undoubtedly do) to diminish the consumption of the taxed articles. The most prominent of the

luxury taxes now in use are those upon tobacco, alcoholic drinks, and entertainments. But many others are possible, though in many cases it has to be remembered that what is a luxury for one man may be very useful expenditure for another, and in such cases a system of allowances or rebates may be necessary. For this reason experiments in luxury taxation, like that recently made in France, have not hitherto been very successful. But the revenue which they yield is not the only test of the value of such taxes. If by the taxation of luxuries it is possible to restrain the wild extravagance into which our people are plunging, this result will be yet more valuable than the revenue derived from the taxes. A second purpose of social utility which may be served by taxation is the reduction of swollen fortunes. This can be forwarded not only by a graduated income-tax, but still more by the taxes known as death-duties, which are, in their modern development, purely a Liberal invention. So long as they are not used in such a way as to diminish the motives for saving, these taxes can scarcely be fixed too high.

Guided by these principles, a Liberal system of national finance, aiming at the production of the maximum revenue which could be obtained without interfering with the nation's productive activity, would rest mainly upon the following modes of taxation.

(1) Income-tax, which should be regarded as the backbone of the whole system. It should begin at an income sufficient to provide a decent livelihood for a family, which should pay only a nominal

charge; it should rise in a gradually steepening curve until, in the highest range of incomes, it attained as high a figure as 75 per cent.; and in the lower ranges of income it should make substantial allowances for families. We have nearly attained to a system of this order, and the scheme of graduation has been much improved in recent Budgets, especially since the report of Lord Colwyn's Commission. But the process is not yet completed; and it is probably desirable that the distinction between income-tax and super-tax should now be dropped, in order to bring out quite clearly what rate is being paid by each income and to simplify the process of assessment.

(2) Taxes on land-values, and upon the increment in these values due to communal activity. This form of taxation, which has long been advocated by Liberals, has been successfully introduced in Canada, New Zealand, and elsewhere; and these experiments have shown not only that such taxes may be very productive, but that they serve the further purpose of making access to land easier and often cheaper. The possibility of any such taxes depends upon a valuation of the land. But the valuation begun in 1909 was nearly completed when it was interrupted by the war; and we have already urged that a rapid re-valuation (which could be checked by the records of 1909) might be made without much difficulty.

(3) Death-duties, graduated in the same way as income-tax, so as to tend towards the break-up of very large fortunes; but they should weigh very lightly upon the lesser accumulations of amounts

which could be saved from real and legitimate earnings during a man's lifetime, the object being to encourage saving and the creation of capital among the working part of the population.

(4) Indirect taxes upon luxuries on a Free Trade basis; the scale of taxation being framed with a view not only to the raising of revenue, but to the discouragement of superfluous or non-productive consumption, the encouragement of saving, and the release of luxury-products now consumed at home for export in exchange for necessary imports of food and raw materials.

(5) A method of "prosperity-sharing" in the profits of established industrial concerns, to replace the existing Excess Profits Duty. It is eminently just that the community should share in the exceptional prosperity of trading concerns to which the community invariably contributes; and this can be done without incurring the deleterious effects of the Excess Profits Duty on the lines already suggested in an earlier section of this essay. For this purpose it is necessary (1) that new enterprises should be allowed a period of years without limitation of profits in which to establish themselves and to ensure a reward for the extra risks taken by the owners of the capital invested in them, and (2) that no "prosperity-sharing" taxation should be imposed until the concern had built up an adequate reserve on such conditions as we have earlier suggested. Charges for provision against unemployment and the outlay upon a reasonable scheme of profit-sharing with employees might also be allowed for before the State took its share. But after these

conditions had been met, the State ought assuredly to have a claim to a substantial share of any residual profits. In the same way the State should receive a substantial proportion if not the whole of the realised profits of any industry brought under national ownership and control, as it already does in the case of the Post Office.

(6) The most important of the minor sources of revenue may be broadly described as payments for the assurance of legal protection for various forms of transactions, such as transfers of shares, receipts, cheques, licences, etc. Here it is essential to avoid, in the short-sighted pursuit of revenue, any hampering of the processes of saving and investment. An instance of a tax which is open to criticism on this ground is the stamp on cheques. The stamp on every cheque forms a real discouragement to the wide use of banks for small accounts ; and nothing forms a greater inducement to saving than the possession of a bank-account, however modest. The absurdity of the system is that precisely the same sum has to be paid for the right of using a cheque for 10*s.* as for the right of using a cheque for £10,000. If no stamps were required, an immediate encouragement would be given to the use of the banks for small accounts ; with the result that the banks would have the handling of a greatly increased floating capital, out of which they could make advances to industry ; while saving would be encouraged, and an economy in currency would be effected.

The forms of taxation which we have enumerated are all, in one form or another, already in existence ;

they represent, in the main, the tradition of nineteenth-century Liberal finance. But they can be improved and developed. They can raise the maximum revenue without disturbing the standard of life of the mass of citizens, and without impeding the conduct of industry, provided that they are not maintained at too high a pitch. They tend towards the encouragement of thrift, and at the same time towards the progressive equalisation of fortunes.

## XVIII

### CONCLUSION

We have in the preceding sections taken a rapid survey of some of the main economic and social problems that to-day face the British peoples—a survey which is necessarily incomplete, and which inevitably disregards the complexities of detail that often form the real difficulty of such problems.

Our purpose in making this survey has not been to lay down a detailed programme of constructive legislation. For such a task we obviously possess neither the needful authority nor the requisite knowledge of detail; and we recognise that deeper knowledge or more extended inquiry would, at one point or another, probably suggest better means of attaining the ends we have defined than those which we have outlined.

Our primary aim has rather been to define the ends at which Liberal policy must aim; to illustrate the spirit and the ideals which will guide the modern Liberal in striving after these ends; to show that modern Liberalism is not merely helpless and bewildered in face of the problems which surround us, that it recognises the necessity for great changes and great reforms, and that the governing ideas

which inspire it can provide the guidance which will, if it is followed, lead us to a better social order.

There is to-day a widespread and insistent demand for a change in the methods, and still more in the spirit, in which industry is conducted. This demand does not come only from those who profit least from the existing methods of wealth-production. It comes as clearly from many of the best and most generous minds of our time; it is echoed by all the most enlightened members of the employer-class; it is strengthened by the spirit of comradeship that was the finest outcome of the Great War.

The strength and prevalence of this demand are facts of good augury for the future. If it can be satisfied, we may well be on the eve of a new era in the history of our civilisation, an era of truer liberty and of a finer comradeship than we have ever known. If, on the other hand, the demand remains unsatisfied, we can look forward only to growing bitterness and growing strife, perhaps even to an utter and dreadful collapse of civilised society. We have already witnessed such a collapse in Russia, where it was brought about by the fostering of the spirit of hatred and intolerance.

The inspiring challenge of this demand cannot be met by a succession of makeshifts to deal with successive emergencies. The work of reconstruction must be guided by definite principles, by a definite ideal as to the kind of society at which we are to aim, an ideal capable of being understood by, and of appealing to, the mass of good citizens—capable of becoming part of the nation's General Will. It

is the greatest defect of the Government under which we are living that, just because its members have few political principles in common, no one can define their ultimate aim.

On the other hand, this challenge is still less likely to be met by abstract theoretical plans for the total reconstruction of Society from top to bottom, based upon a refusal to recognise that there is anything good in the existing order. That mode of travelling towards Utopia appeals to crude and impatient if generous minds, because, untaught by the long story of human error, they are ready to jump to the conclusion that the latest plausible prophet has in his mouth the sum of all wisdom. It has often been tried in human history, and has always led to disaster, as in the French Revolution, when a noble and unanimous national aspiration after justice, because it trusted to doctrinaire theories that had little relation to facts, brought about an extravagance, an anarchy, and a slaughter which undid most of the good that might have been secured. All genuine human progress must arise out of the past, and preserve and build upon whatever good has been wrought out by our predecessors; it must be guided by loyalty to facts, not by a credulous, excited trust in the mushroom and evanescent theories of the moment, though it may draw inspiration even from these.

We are to-day being loudly urged to undertake a complete and revolutionary recast of our whole economic system. Two distinct and mutually incompatible proposals for this end are put before us by various groups within the Labour Party. One

of these proposals—Socialism—is that all industry should be brought under the direct ownership and control of the State; the other—Syndicalism or Guild Socialism—is that every industry should be brought under the direct ownership and control of the workers in the industry, with whom even the State should have no power to interfere.

We have tried to show that both of these schemes are open to many criticisms. Not only are they mutually destructive, but no one has yet been able to give a clear and defensible account of the way in which either would work in practice. Both are supported, in the main, by purely theoretical arguments. What is yet more important, both seem almost wholly to disregard, and threaten to destroy, three outstanding achievements which, amid many defects, have marked the existing economic order.

The first of these achievements is the production of wealth on a scale unparalleled in the earlier history of the world. This has alone made possible the maintenance of a vast population at a steadily improving standard of comfort. Its continuance is necessary if any further improvement is to take place. Its main cause has been the freedom and the stimulus which the system has given to individual enterprise and initiative.

The second of these achievements is the development of a remarkable variety of forms of industrial organisation; for though we call our system "Capitalist," and though control by the owners of capital is its most characteristic form, yet this form by no means stands alone. Many other forms, as

we have seen, exist and thrive alongside of it, and each industry is in a large degree free to find the form most appropriate to it. There is no such rigid uniformity of method as both the Socialist and the Syndicalist schemes would establish. Variety and elasticity are qualities too precious to be lightly sacrificed.

The third of these achievements is the creation of a democratic State, which can speak and act for the whole community, which stands above and outside of the frictions and conflicts of industrial life, but which can and does intervene to protect the rights and liberties of every class of citizens, or to regulate the conditions under which industrial activities may be carried on.

All these three healthy and valuable features of the existing order would be destroyed, or at the least gravely impaired, by the Socialist and the Syndicalist projects. For both of these projects would either greatly diminish or wholly destroy the incentives to individual enterprise and initiative which have been the principal cause of rapid increase in the production of wealth ; both would put an end to variety of method and organisation by insisting upon a rigid uniformity ; and both would destroy the power of the democratic State to act as the impartial guardian of liberty—Syndicalism by depriving it of the right to interfere in industrial affairs, Socialism by making it an interested party in every industrial conflict, and by loading it with such a multiplicity of functions that it would be unable to control its own agents, and its back would be broken by the burden.

When the Liberal thinker fixes his mind upon the problem of social reconstruction, his first reflection must be that, whatever changes we may make, the fertile and healthy features of the existing order which we have enumerated must be preserved in the fullest possible degree ; for these features are altogether in accord with Liberal ideals, the essence of which is a belief in liberty, in individuality, in variety, and in democracy. The kind of community which the Liberal spirit desires to create is one which will cherish Liberty beyond all other boons, which will rejoice in variety of method and experiment, which will regard individual energy as the source and the motive power of progress, which will encourage every citizen to feel that all honest work of hand and brain is advantageous alike to himself and to the community, and which will use the power of the democratic State primarily as a means of securing to every citizen the conditions of real liberty and protecting him in its exercise, of stimulating individuality, and of guarding against every abuse of power that tends to restrict these or to stunt them.

But if the Liberal's first thought is that certain good features of the existing order must be preserved, his second is that it presents also certain evil features which he burns to remove. For too many of our citizens Liberty is still unreal and individuality is repressed ; with most of us, in all classes, desire for private or class advantage dwarfs desire to benefit the community, and is thus hostile to the best kind of work. The main cause of this lies in the evil aspects of the existing system, in the fact that it

seems to favour one or two elements in the community, and one or two factors in productive work, at the expense of the rest, and in the further fact that some of the other elements or factors are too much preoccupied with the struggle against this apparent injustice to give sufficient thought to the public weal, and conflict is substituted for co-operation.

The factor thus chiefly favoured is Capital ; which, although it is only one among at least five indispensable factors in productive work, nevertheless claims, and largely succeeds in obtaining, a position of predominance almost amounting to dictatorship ; and although this is very materially qualified by the power of the democratic State, by the resistance of the other factors and especially of organised manual labour, and by the existence of a variety of forms of industrial organisation wherein Capital does not wield a controlling power, nevertheless this predominance is real, and it arouses bitterness and unrest.

Why has Capital been allowed, for so many centuries, to exercise so potent a controlling influence ? To attribute this result to the wickedness of capitalists is mere folly. Human society does not tolerate such a state of things without a reason ; and the reason has been that the accumulation and skilful employment of great masses of capital, or wealth withheld from consumption, has been one of the chief causes of the immense production of wealth which has kept our society alive and progressive.

Liberalism recognises the necessity for the creation of capital on a large scale, and believes that, in the future as in the past, individual effort and individual thrift must be relied upon for the production of most of the new capital which the community needs. It believes, therefore, in the private ownership of capital. But it recognises that the possession of immense masses of capital by a small number of men is unhealthy; because it places in the hands of these men a dangerous degree of power. Liberalism must therefore aim at the wide diffusion of capital, and strive towards that end (*a*) by reducing swollen fortunes by means of taxation and in other ways, and (*b*) by encouraging saving in all classes of the population. The ultimately desirable state of things is that everybody should have the chance of creating and owning capital, and that everybody should earn wages by personal work.

But Liberalism also recognises that the owners of capital, whether they be few or many, have no right to claim a position of predominance in the control of industry and the fixing of its aims, seeing that capital, though an indispensable factor, is only one among a number of indispensable factors in productive work. The practical assertion of such a claim is to-day one of the most fruitful causes of unrest. But the true mode of rectifying the exaggerated claims of capital is not to deny to capital any share in control, still less to place only one of the other indispensable factors in a similar position of predominance, a result which would

follow from the Socialist and Syndicalist schemes. The true mode is the mode of partnership, securing to each of the indispensable factors in production a share of control appropriate to the part which it plays.

This principle of partnership is the essence of the industrial policy suggested by the ideas of Liberalism. But the part to be played by each element in the partnership cannot be defined by any sweeping or rigid formula. It must vary from one industry to another. It must change with changing times. It must permit of a great variety of experiment and of method, allowing each industry to find its way to the mode of organisation most suitable for it. In all industrial work the voice of every contributing element should have due weight, but there is room for wide variation in the relative influence which each element may possess. In all cases the directive and organising element must necessarily have a high degree of independent authority. In all cases labour of brain and hand must be assured of an effective voice in determining the conditions under which it is to work. But the ultimate deciding voice in questions of general policy should vary from case to case, falling in some cases to a national body under the ultimate control of the State, or to some other public authority, in other cases to the consumers (as in co-operative societies), in other cases to the workers by brain and hand (as in co-operative productive societies), in other cases to the owners of capital, where they assume heavy risks, and in yet other cases—the majority, perhaps

—to an organised co-partnership of the several factors in production. And over all forms of organisation must stand the democratic State, not interfering in the actual conduct of industrial affairs (a function which it cannot directly perform with efficiency), but striving to ensure, by legislative and administrative action, that justice is done and that the rights and liberties of all citizens are protected.

We have tried to work out, in an illustrative way, some of the modes in which this principle of partnership might be realised, both in the management of industries as a whole, and in the management of individual concerns. We have tried also to show how the power of the democratic State can be used to safeguard the community against abuses of power whether by owners of capital or by owners of land, and how it can be employed to afford to all citizens the conditions of real liberty, by helping them to obtain healthy conditions of life and the means of self-training. Finally we have tried to show how reforms conceived on these lines should lead large elements in our society to abandon those restrictions on their own liberty which they have voluntarily adopted as a means of safeguarding themselves against various dangers. These restrictions on a man's freedom to do his best are ruinous both to the individual and to the community; but they can only be dealt with by getting rid of the conditions which have given rise to them.

In short, we have tried to shadow forth the form

of Society to which Liberalism looks forward, not as something fixed and definite which can be attained by a single act, but as something which will be progressively attained as we grow in knowledge and mutual understanding, as something towards which all the best work of our ancestors has contributed, as something which we may all help to bring nearer in our day and generation by honest work and mutual tolerance : a Society of free men, free to make the utmost use of all their powers without dictation or restriction, for their own advantage and that of the community, free to do by their own choice any of the things that are worth doing, and that are not harmful to others ; a Society in which each man's freedom shall be ensured by the common action of all, working through the democratic State ; in which the material basis of Liberty shall be guaranteed to all who make their fair contribution, by work and by thrift, to the common weal ; and in which every undue exercise of power, or claim to dictatorship, by any element in the community, shall be restrained and controlled by the common will. This is an ideal which is very old, yet always new. It does not lend itself to easy and clap-trap catchwords. It does not promise a short cut to the millennium. It does not suggest that Utopia can be swiftly realised by the enactment of a few laws, since it puts reliance rather upon individual energy and private virtue, and believes that common action can do no more than create conditions which will be favourable to these. But it can give us something to work for, each of us in his place ;

a clue to guide us through the bewildering complexities of our time; an inspiration which has been potent in the past, and which can be all the more potent for the future, just because it does not set before us a rigid or hidebound theory, but invites us, as free men, to work, in an infinite variety of ways, not for ourselves alone, but for the expanding freedom and the peace and happiness of our children.

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